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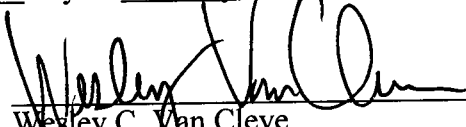
IN THE MATTER OF THE APPLICATION OF  
SUNRISE WATER COMPANY FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PROPERTY AND  
FOR AN INCREASE IN ITS WATER RATES  
AND CHARGES.

DOCKET NO. W-02069A-08-0406

**STAFF'S NOTICE OF FILING  
DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of  
Staff Witnesses Alexander I. Igwe and Jian W. Liu in the above-referenced matter.

RESPECTFULLY SUBMITTED this 27<sup>th</sup> day of February, 2009

  
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1 Copy of the foregoing mailed this  
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8

**DIRECT**

**TESTIMONY**

**OF**

**ALEXANDER I. IGWE**

**JIAN W. LIU**

**DOCKET NO. W-02069A-08-0406**

**IN THE MATTER OF THE APPLICATION OF  
SUNRISE WATER COMPANY AN ARIZONA  
CORPORATION, FOR A DETERMINATION  
OF THE CURRENT FAIR VALUE OF ITS  
UTILITY PLANT AND PROPERTY AND FOR  
INCREASES IN ITS RATES AND CHARGES  
BASED THEREON FOR UTILITY SERVICE**

**FEBRUARY 27, 2009**

**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
SUNRISE WATER CO., AN ARIZONA )  
CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS )  
UTILITY PLANT AND PROPERTY AND FOR )  
INCREASES IN ITS RATES AND CHARGES )  
BASED THEREON FOR UTILITY SERVICE )

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DOCKET NO. W-02069A-08-0406

DIRECT

TESTIMONY

OF

ALEXANDER IBHADE IGWE, CPA

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 27, 2009

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**EXECUTIVE SUMMARY  
SUNRISE WATER COMPANY  
DOCKET NO. W-02069A-08-0406**

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On August 1, 2008, Sunrise Water Company ("Sunrise" or "Company") filed for Commission authorization to increase its rates and charges. Sunrise serves approximately 1,324 customers, based on rates and charges that were approved by the Commission in Decision No. 53721, dated August 31, 1983. In this proceeding, the Company seeks total revenues of \$1,590,295, an increase of approximately 22.05 percent or \$285,932 over its adjusted test year revenues of \$1,304,363. This proposal results in an operating income of \$144,815 or a 10 percent rate of return on its Original Cost Rate Base ("OCRB") of \$1,448,154.

The Company has proposed a tiered rate structure in this proceeding. Sunrise proposes a three-tiered rate structure for the ¾-inch metered customers; with a break-over point of 4,000-gallons for the first tier, 18,000-gallons for the second tier and above 18,000-gallons for the third tier. Further, the Company proposes a commodity rate of \$3.00 per 1,000-gallons for the first-tier, \$3.40 for the second tier and \$3.70 for the third tier. For the larger sized meters, the Company proposes a two tiered rate structure with different break-over points. For these meters, the Company proposes a commodity rate of \$3.40 per 1,000-gallons for the first tier and \$3.70 per 1,000-gallon for the second tier. The Company's proposed rate design will increase the monthly typical bill for a ¾-inch metered residential customer, with an average consumption of 17,782-gallons, from \$62.68 to \$73.68, an increase of \$11.18 or 17.84 percent.

The Company has published and mailed notice of its proposed rate increase within its certificated areas. On November 17, 2008, the Company docketed an "Affidavit of Publication" published in the *Peoria Times*, a newspaper of general circulation within and around its certificated territory. The Company published the Affidavit of Publication in the *Peoria Times* on November 14, 2008, and mailed a copy of the *Customer Notice* to each customer of record on the same date.

Staff has reviewed the Company's application, and recommends adoption of its proposed 10 percent rate of return, as an appropriate Fair Value Rate of Return ("FVROR") in this proceeding. Staff recommends total operating revenues of \$1,378,396 based on Staff's analysis of the Company's filings and the underlying financial records. Staff's recommended revenue requirement is \$26,218 over Staff adjusted test year revenues of \$1,352,178; and \$211,899 less than the Company's proposal. Staff's recommended revenue requirement results in an operating income of \$118,383 or a 10.00 percent FVROR on Staff's adjusted OCRB of \$1,183,834.

Staff reviewed the Company's proposed tiered rate design, and recommends its adoption as an appropriate modification to the Company's current rate design. Accordingly, Staff recommends approval of the Company's proposed three tiered rate structure for the ¾-inch metered customers, and a two-tiered rate structure for larger sized meters. However, Staff finds that the Company's proposed second break-over point of 18,000-gallons for ¾-inch metered customers is higher than the median and average consumption. As a result, Staff recommends a second-tier break-over point of 13,000-gallons for ¾-inch metered customers. Staff's

recommended rate design increases the monthly typical bill for a  $\frac{3}{4}$ -inch metered residential customer, with an average consumption of 17,782-gallons, from \$62.68 to \$63.90, an increase of \$1.22 or 1.94 percent.



**INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Alexander Ibhade Igwe. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. What is your current employment position?**

A. I am employed with the Utilities Division of the Arizona Corporation Commission ("Commission") as an Executive Consultant III.

**Q. Briefly describe your responsibilities as an Executive Consultant.**

A. In my capacity as an Executive Consultant III, I perform complex financial analysis and make recommendations to the Commission on rate base, revenue requirement and rate design; for water, wastewater, electric and gas rate proceedings. I also provide recommendations on financing, merger and acquisitions, sales of assets, issuance and extension of Certificate of Convenience and Necessity as well as other ancillary matters.

**Q. Please describe your educational background and professional experience.**

A. I received a Bachelor of Science degree in Accounting from the University of Benin, Nigeria and a Master of Information Systems Management degree from Keller Graduate School of Management of Devry University. I am a licensed Certified Public Accountant in the States of Arizona and Illinois. I have attended various training classes and courses regarding regulatory audits, ratemaking, and other utility related matters. In addition, in my over nine years working for the Utilities Division, I have prepared Staff Reports and pre-filed testimonies and presented oral testimonies in several proceedings before the Commission.

**PURPOSE OF TESTIMONY**

**Q. What is the purpose of your testimony in this proceeding?**

A. I am presenting Staff's analysis and recommendations regarding Sunrise Water Company's ("Sunrise" or "Company") application for a determination of the current value of its utility plant and property, and for increases in its rates and charges based thereon. My testimony addresses the Company's proposal regarding cost of capital, rate base, revenue requirement and rate design.

**Q. What is the basis of your recommendations?**

A. I reviewed the Company's filing and conducted a regulatory audit of its financial statements and records to determine whether sufficient, relevant, and reliable evidence exists to support its requested rate increase. The regulatory audit entailed examination and testing of financial information, accounting records and other supporting documentation, as well as verifying that the accounting principles applied by the Company were in accordance with National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USoA").

**BACKGROUND**

**Q. Please provide a brief description of the Company.**

A. Sunrise is certificated by the Commission to provide water service in Maricopa County. The Commission approved its current rates and charges in Decision No. 53721, dated August 31, 1983. As of December 31, 2007, Sunrise had approximately 1,324 customers, comprised of 1,315 residential consumers, approximately 99.6 percent of its customer base, 2 commercial customers, and 7 hydrant customers. The Company projects a customer base of 1,370 customers by December 2012.

1     **Q.     Why is the Company seeking rate relief in this proceeding?**

2     A.     The Company's witness, Mr. Ray L. Jones, testifies at page 3 of his Direct Testimony that  
3           its application for a rate increase is necessitated by significant capital investments in  
4           arsenic remediation facilities, rising costs of service, and dwindling earnings from  
5           customer growth. Sunrise claims that between 1983 and 2006, there was sizeable  
6           customer growth within its certificated area, and that the resulting increase in revenues  
7           enabled it to provide service without seeking a rate relief. The Company now contends  
8           that the current melt-down in the real estate market has negatively impacted revenues  
9           derived from customer growth, and its ability to meet rising cost of service.

10  
11    **Q.     Please briefly describe the ownership structure of Sunrise and its affiliation with**  
12           **other companies under the same ownership.**

13    A.     Sunrise is organized as a Subchapter S corporation. Mr. J. D. Campbell is the Company's  
14           President. The Company's shares are solely held by Mr. Campbell. Mr. Campbell is also  
15           the President of West End Water Company ("West End"), a water utility company  
16           certificated by the Commission, as well as other real estate ventures. Sunrise, West End  
17           and J. D. Realty, Inc. ("Realty") (another affiliate) are jointly managed from shared  
18           corporate offices located in Peoria, Arizona. Further, Sunrise and West End share  
19           common management and technical staff. Finally, some elements of the three companies'  
20           operating costs are initially booked directly to Sunrise, before subsequent allocation to the  
21           respective companies. In other words, there is significant commingling of operating costs  
22           in Sunrise's accounting system.

1 **Q. Does Mr. Campbell have other business relationships with Sunrise?**

2 A. Yes. Mr. Campbell is the lessor of the Company's corporate offices, vehicles and other  
3 facilities. Issues relating to these transactions will be fully discussed under operating  
4 income adjustments.

5  
6 **CONSUMER SERVICE**

7 **Q. Please summarize the Company's consumer service history.**

8 A. Staff's search of the Commission database indicates that between 2005 and 2007, the  
9 Company had four (4) complaints; two (2) new service issues and two (2) billing issues.  
10 The Company had no consumer service issue during 2008, and thus far in 2009. All  
11 reported issues have been successfully resolved.

12  
13 **Q. Did the Company publish a notice of its pending rate application?**

14 A. Yes. On November 17, 2008, the Company docketed an "Affidavit of Publication" that  
15 was published in the *Peoria Times*, a newspaper of general circulation within and around  
16 its certificated territory. The Affidavit of Publication was published in the *Peoria Times*  
17 on November 14, 2008, and a copy of the *Customer Notice* was mailed directly to each  
18 customer of record on the same date.

19  
20 **Q. Did Staff review a sample of the Company's bill format?**

21 A. Yes. Staff's review shows that the Company's bill format is compliant with Arizona  
22 Administrative Code ("A.A.C.") § R14-2-409.B.2.

23  
24 **Q. Is the Company in good standing with the Corporations Division of the Commission?**

25 A. Yes. Staff has confirmed that the Company is in good standing with the Corporations  
26 Division of the Commission.

1 **Q. Has the Company filed a Curtailment Tariff with the Commission?**

2 A. Yes. Staff's research of the Company's record indicates that its filed curtailment Tariff is  
3 currently being reviewed by the Commission.

4  
5 **Q. Did Sunrise file a Cross-connection/Backflow Tariff with the Commission?**

6 A. Yes. Our review of the Commission records indicates that the Company has a cross-  
7 connection/backflow tariff on file.

8  
9 **REVENUE REQUIREMENT**

10 **Q. Please summarize the Company's proposed revenue requirement.**

11 A. The Company proposed total operating revenues of \$1,590,295, an increase of \$285,932  
12 or 21.92 percent over its reported adjusted test year revenues of \$1,304,363. The  
13 Company's proposal results in an operating income of \$144,815 or a 10.00 percent rate of  
14 return on an Original Cost Rate Base ("OCRB") of \$1,448,154.

15  
16 **Q. Please state Staff's recommendation for revenue requirement.**

17 A. Staff recommends total operating revenues of \$1,378,396. Staff's recommended revenue  
18 requirement is \$26,218 over Staff's adjusted test year revenues of \$1,352,178, and  
19 \$211,899 less than the Company's proposal. Staff's recommended revenue requirement  
20 results in an operating income of \$118,383 or a 10.00 percent rate of return on Staff's  
21 adjusted OCRB of \$1,183,834.

22  
23 **SUMMARY OF ADJUSTMENTS**

24 **Q. Please summarize the adjustments addressed in this testimony.**

25 A. Staff's analysis addresses the following adjustments:

1       Outside Services

2       This adjustment decreases operating expenses by \$27,000 to eliminate non-recurring and  
3       unwarranted lobbying fees.

4  
5       Water Testing Expense

6       This adjustment increases water testing expense by \$2,184 to reflect an appropriate cost  
7       for Monitoring Assistant Program ("MAP") testing.

8  
9       Rent Expense

10      This net adjustment of \$16,574 encompasses: (1) Staff's recommendations to deny  
11      \$37,595 for leased facilities, (2) Staff's reclassification of \$1,500 from office supplies  
12      expense, and (3) Staff's reclassification of \$19,521 from miscellaneous expense.

13  
14      Transportation Expense

15      This net adjustment reduces operating expense by of \$23,180 to reflect Staff's  
16      recommendation to decrease operating expense by \$8,395, for vehicles leased from a  
17      related party, eliminate \$8,485 for incentive compensation, of which one-half or \$4,243 is  
18      reclassified to salaries and wages, and to deny \$6,300 for non-recurring bonding cost.

19  
20      Miscellaneous Expense

21      This adjustment shows a net increase of \$30,831 to miscellaneous expense. It reflects  
22      Staff's recommendation to deny \$3,992 for permits and recording, eliminate \$2,285 for  
23      entertainment and promotion, eliminate a negative balance of \$6,413 for preliminary  
24      investment in water supply, eliminate a negative balance of \$50,216 for capitalized  
25      overhead, and reclassify \$19,521 of corporate office lease to rent expense. Staff's net  
26      adjustment of \$30,831 results in Staff's adjusted miscellaneous expense of \$8,851.

1        Depreciation Expense

2        This adjustment increases operating expenses by \$10,210 to reflect Staff's recalculation of  
3        depreciation expense based on the group method.

4  
5        Property Tax Expense

6        This adjustment decreases operating expenses by \$21,985 to reflect Staff's recalculation  
7        of test year property tax expense.

8  
9        **COST OF CAPITAL**

10      **Q.     What is the Company's requested cost of capital?**

11      A.     The Company proposed a 10 percent rate of return in this proceeding.

12  
13      **Q.     Please state the Company's test year end capital structure.**

14      A.     The Company's capital structure is comprised of 100 percent equity. In other words, the  
15      Company had no debt at the end of test year.

16  
17      **Q.     Did the Company perform a cost of capital analysis?**

18      A.     No. Mr. Jones testifies at page 11, line 16, that the requested rate of return is based on its  
19      survey of Commission approved Return on Equity ("ROE") in 2008. Since the Company  
20      has no debt, it proposes the adoption of a 10 percent ROE as its authorized rate of return in  
21      this instant case.

22  
23      **Q.     Did the Company request a Fair Value Rate of Return ("FVROR")?**

24      A.     No. The Company did not make a specific request for determination of FVROR. It  
25      appears that the Company assumes that a 10 percent rate of return should be adopted as its  
26      FVROR in this proceeding.

1 **Q. Does Staff agree with Sunrise that a 10 percent FVROR is a reasonable and an**  
2 **appropriate rate of return for the Company?**

3 A. Yes. Staff finds that the Company's proposed 10 percent FVROR is reasonable and  
4 consistent with recent Commission Orders, as discussed on page 11 of Mr. Jones' direct  
5 testimony.

6  
7 **Q. What is Staff recommending for FVROR?**

8 A. Staff recommends adoption of the Company's proposed 10 percent FVROR.  
9

10 **RATE BASE**

11 **Fair Value Rate Base**

12 **Q. Did the Company provide any schedule showing elements of Reconstruction Cost**  
13 **New Rate Base ("RCND")?**

14 A. No. The Company did not present the result of an RCND study in its filing. Therefore, it  
15 appears that the Company intends that its requested OCRB be treated as Fair Value Rate  
16 Base ("FVRB").  
17

18 **Rate Base Summary**

19 **Q. Please state Staff's recommendation for rate base?**

20 A. As shown on Schedule AII-1 and AII-2, Staff recommends a rate base of \$1,183,834,  
21 which is \$264,320 less than the Company's proposal of \$1,448,154.  
22

23 **Q. Please summarize Staff's recommended adjustments to rate base.**

24 A. Staff's rate base adjustments are comprised of an increase of \$135,964 to accumulated  
25 depreciation, and an increase of \$128,356 to AIAC. The following rate base adjustments  
26 address each of Staff's recommendations.



**Rate Base Adjustment No. 1 – Accumulated Depreciation**

**Q. What is the Company's proposed Accumulated Depreciation?**

**A.** The Company proposed \$2,492,247 for test year end accumulated depreciation.

**Q. Did the Company explain its method for calculating accumulated depreciation?**

**A.** Yes. The Company states that its test year end accumulated depreciation was derived by applying a 5 percent depreciation rate, approved in Decision No. 53721, to each depreciable plant in service, from end of prior test year through December 31, 2007. In calculating its reported accumulated depreciation, the Company adopted a half-year convention and the specific asset method for computing depreciation. The Company's reported accumulated depreciation is an aggregate of its recalculated depreciation expense for each year since the last rate case, and Commission approved balance in Decision No. 53721.

**Q. Did Staff review the method utilized by the Company for recalculating accumulated depreciation?**

**A.** Yes. Staff reviewed the Company's calculation of accumulated depreciation, which is depicted on its filed Schedule B2-2. Staff confirmed that the Company adopted a half-year convention and the specific asset method for computing depreciation. The half-year convention assumes that plant additions and retirements occur at mid-year, and thus recognizing 50 percent of an asset's normal depreciation expense in the year it is first devoted to service as well as the year it is retired from service. Staff also found that the Company calculated depreciation based on the specific asset method, instead of the group method, which is generally accepted for ratemaking in Arizona.

1     **Q.     Please comment on the specific asset method for calculating depreciation.**

2     A.     The specific asset method depreciates each plant item from the time it is placed in service  
3           through the date it is fully depreciated or retired from service. This method requires  
4           tracking of accumulated depreciation on each plant item, in order to ensure that  
5           depreciation is discontinued once the plant item is fully depreciated or removed from  
6           service. This method is different from the group method, which calculates depreciation  
7           based on the pooling of assets in a plant account class without tracking of each plant  
8           within the group.

9  
10    **Q.     How is depreciation calculated under the group method?**

11    A.     As discussed above, the group method does not separately calculate depreciation on each  
12           plant item within an account group. Instead, depreciation is calculated on the entire group  
13           by applying the approved depreciation rate on the account balance at the end of test year.  
14           For each example, plant items categorized as structures and improvements are collectively  
15           depreciated, without tracking of each plant item in the group. Since only a pool of assets  
16           and not individual assets are depreciated under the group method, a plant item that  
17           remains in service is continuously depreciated until it is retired from service or the group  
18           is fully depreciated.

19  
20    **Q.     What is the impact of employing the group method versus the specific asset method**  
21           **on depreciation and accumulated depreciation?**

22    A.     In general, accumulated depreciation grows faster under the group method, than the  
23           specific asset method. This is due to continuous depreciation of assets that are fully  
24           depreciated but remain in service under the group method. Such plant items are excluded  
25           from calculation of depreciation under the specific asset method. As a result, depreciation  
26           expense included in costs of service is greater under the group method. However, since

1 depreciation expense is greater under the group method, accumulated depreciation is  
2 equally higher, thus resulting in a higher deduction in the calculation of rate base. In  
3 summary, the group method results in a higher depreciation expense and in a lower rate  
4 base.

5  
6 **Q. Did the Company employ the specific asset method throughout its filing?**

7 A. No. The Company did not employ the group method in calculating its test year  
8 depreciation expense. As shown on Schedule C-2, page 15, the Company calculated  
9 depreciation expense by applying its proposed depreciation rate for each plant account  
10 class to adjusted utility plant in services. In other words, the Company did not separately  
11 depreciate each asset, nor did it exclude plant items that have been fully depreciated from  
12 its calculated test year depreciation expense.

13  
14 **Q. What is the impact of employing group method for calculating depreciation expense  
15 and specific asset method for determining accumulated depreciation?**

16 A. The amount of test year depreciation expense reflected in revenue requirement is greater  
17 than the amount of test year depreciation expense recorded in the Company's accumulated  
18 depreciation. Part of the difference results from the exclusion of plant items deemed fully  
19 depreciated from the calculation of depreciation expense under the specific asset method.  
20 In stating this partial impact, Staff recognizes that the Company's proposed change in  
21 depreciation rates may have created some of the variance between depreciation expense  
22 reflected in operating income, and test year depreciation expense included in accumulated  
23 depreciation.

1 **Q. Did Staff recalculate the Company's accumulated depreciation based on the group**  
2 **method?**

3 A. Yes. Staff recalculated the Company's accumulated depreciation based on the group  
4 method. Consistent with the Company's policy, Staff assumed a half-year convention for  
5 plant additions and retirements. Further, Staff utilized the Commission approved  
6 depreciation rate of 5 percent, in calculating accumulated depreciation from July 31, 1982  
7 through December 31, 2007.

8  
9 **Q. What is the result of Staff's recalculated Accumulated Depreciation?**

10 A. Staff's recalculation results in an accumulated depreciation of \$2,628,211, which is an  
11 increase of \$135,964 over the Company's proposal of \$2,492,247.

12  
13 **Q. Please explain the difference between Staff's recalculated accumulated depreciation**  
14 **and that proposed by the Company.**

15 A. The difference between Staff's recalculated accumulated depreciation and that reported in  
16 the Company's filing is primarily attributed to Staff's use of the group method, as  
17 discussed above.

18  
19 **Q. What is Staff's recommendation for accumulated depreciation and amortization?**

20 A. As shown on Schedule AII-4, Staff recommends \$2,628,211 for accumulated depreciation.

21  
22 **Rate Base Adjustment No. 2 – Advances-in-Aid of Construction**

23 **Q. What did the Company propose for Advances-in-Aid of Construction ("AIAC")?**

24 A. The Company proposes \$6,256.352 for AIAC. This proposal reflects Company  
25 Adjustment RLJ-6, which reduces AIAC by \$128,356 for anticipated refunds.

1     **Q.     Why did the Company propose Adjustment RLJ-6?**

2     A.     According to Mr. Jones, at Page 6, line 3, "Rate Base Adjustment RLJ-6 decreases  
3           Sunrise's Advances balance to reflect the annual refund of Advances required by line-  
4           extension agreement. As required by the Commission's rules, the refunds will be made on  
5           or before August 31, 2008."

6  
7     **Q.     Does any Commission rule allow for adjustment of test year AIAC by future**  
8           **refunds?**

9     A.     No. Staff is not aware of any Commission rule that permits reduction of test year AIAC  
10           by forecasted refunds. Ratemaking in Arizona is based on a historic test year, which  
11           requires matching of investments, revenues and expenses at the end of the Company  
12           chosen test year. The Company's proposal is in contravention of this fundamental  
13           principal of ratemaking. Accordingly, Staff finds that the Company's proposal to reduce  
14           test year end AIAC by future refunds creates a mismatch that is inconsistent with sound  
15           ratemaking principles.

16  
17    **Q.     What is the impact of Company Adjustment RLJ-9 on rate base?**

18    A.     The Company's proposal understates the balance of AIAC and overstates rate base. AIAC  
19           is non-investor provided capital, which is treated as a reduction to rate base in ratemaking.  
20           The Company's proposal reduces the balance of AIAC by future refunds, thus  
21           understating the balance of AIAC that is treated as a reduction to rate base. Therefore,  
22           rate base is reduced by a lesser amount than the test year balance. This results in an  
23           overstatement of rate base on which the Company's investors will earn Commission  
24           authorized rate of return. If the Company's proposal is adopted, ratepayers will be  
25           required to provide a return on non-investors' capital.

1 **Q. Is it Staff's conclusion that the Company's proposal to reduce AIAC by future**  
2 **refunds creates a mismatch and should be denied.**

3 **A. Yes. As fully described above, the Company's proposal will result in approval of returns**  
4 **on non-investors provided capital. It will overstate revenue requirement and unduly result**  
5 **in higher rates to ratepayers.**

6  
7 **Q. What is Staff's recommendation for AIAC?**

8 **A. As shown on Schedule AII-5, Staff recommends the Company's reported test year balance**  
9 **of \$6,384,708 for AIAC.**

10  
11 **OPERATING INCOME**

12 **REVENUES**

13 **Q. Please state the Company's reported test year operating income.**

14 **A. The Company reported an adjusted test year operating loss of \$60,264.**

15  
16 **Q. What is Staff's adjusted test year operating income?**

17 **A. Staff's adjusted test year operating income is \$92,165, an increase of \$152,429 over the**  
18 **Company's adjusted test year loss of \$60,264. The difference between Staff's adjusted**  
19 **test year operating income and the Company's reported operating loss is attributable to the**  
20 **following adjustments.**

21  
22 **Operating Income Adjustment No. 1 – Test Year Revenues**

23 **Q. What did the Company report for test year adjusted metered revenues?**

24 **A. The Company reported \$1,296,025 for test year adjusted metered revenues, which reflect a**  
25 **reduction of \$47,815 for hydrant water sales.**

1     **Q.     Why did the Company reduce test year metered revenues by \$47,815 of hydrant**  
2     **water sales?**

3     A.     The Company claims that "During the test year Sunrise experienced an unusually high  
4     level of hydrant water sales for two reasons. First, the Maricopa County Flood Control  
5     District ("Flood Control"), in cooperation with the City of Peoria and Maricopa  
6     Department of Transportation undertook construction of the 83<sup>rd</sup> Avenue/Pinnacle Peak  
7     Road Drainage Improvement project." "Second, like much of Arizona, Sunrise  
8     experienced a development boom beginning in 2005 and ending in 2007." The Company  
9     contends that these two factors resulted in a higher than normal hydrant water sales during  
10    the test year. Further, the Company states its proposed adjustment RLJ-8, and related  
11    adjustment RLJ-9, are intended to normalize hydrant water sales during the test year.

12  
13    **Q.     How did the Company derive its proposed normalized level of test year hydrant**  
14    **water sales?**

15    A.     As shown on the Company's Schedule C-2, page 12; Sunrise calculated its reported  
16    normalized level of test year hydrant water sales through a series of steps. First, it  
17    aggregated hydrant water sales between 2003 and 2007, a total of 54,014,740-gallons.  
18    Second, the Company subtracted test year hydrant water sales attributed to Flood Control,  
19    a total of 13,068,700-gallons, from its five year aggregate, resulting in 5-year adjusted  
20    total hydrant water sales of 40,946,040-gallons. Third, the Company averaged its 5-year  
21    adjusted total hydrant water sales by dividing 40,946,040-gallons by 5, resulting in  
22    average hydrant water sales of 8,189,208-gallons. The Company equates its calculated  
23    average of 8,189,208-gallons to be representative of a normal level of future hydrant water  
24    sales. Fourth, the Company determined what constituted excess hydrant water sales by  
25    subtracting its calculated average of 8,189,208-gallons from its actual test year hydrant  
26    water sales of 24,966,230. This calculation results in excess hydrant water sales of

1 16,777,022-gallons. Then, the Company multiplied its calculated excess hydrant water  
2 sales of 16,777,022-gallons by Commission approved commodity rate of \$2.85 per 1,000-  
3 gallons, to derive excess metered revenues of \$47,815, attributable to excess hydrant water  
4 sales. Finally, the Company adjusted for presumed above normal hydrant water sales by  
5 reducing test year metered revenues by \$47,815.

6  
7 **Q. Please comment on the Company's methodology for calculating normalized level of**  
8 **test year hydrant water sales.**

9 A. The Company's methodology for calculating its reported normalized level of test year  
10 hydrant water sales is flawed. First, the Company adopts a five year average that is  
11 comprised of three years of very low hydrant water sales. As indicated on Schedule C-2,  
12 page 12, the Company's recorded sales for 2003 is 1,074,700-gallons; 3,640,100-gallons  
13 for 2004; 4,759,101-gallons for 2005; 19,574,700-gallons for 2006; and 24,966,230-  
14 gallons for 2007. Thus, inclusion of sales from 2003 through 2005 is intended to  
15 understate its calculated normalized level of test year hydrant water sales. Second, the  
16 Company understates its normalized level of test year hydrant water sales by deducting  
17 13,068,700-gallons of hydrant water sales to Flood Control, from its calculated 5-year  
18 aggregate. Finally, the Company failed to recognize future earnings from similar sources,  
19 such as the Happy Valley Road Project ("Happy Valley").

20  
21 **Q. Please explain the concept of normalization in ratemaking.**

22 A. Because ratemaking in Arizona is based on historic test year, various adjustments are  
23 made to test year end balances to ensure proper matching of rate base, revenues and  
24 expenses. In general, rate base items, such as plant in service and accumulated  
25 depreciation, are determined based on the actual amount recorded at the end of the test  
26 year. However, certain elements of rate making that tend to fluctuate from month to



1 month are normalized, based on an averaged level. Other elements, such as test year  
2 revenues, are annualized to match test year end customer counts to test year net plant in  
3 service. Also, certain operating expenses, such as depreciation and payroll costs, are  
4 annualized based on end of test year levels. Thus, normalization and annualization are  
5 mechanisms designed to ensure proper matching of rate base, revenues and expenses, on a  
6 going-forward basis.

7  
8 **Q. Is the Company's proposal to reduce test year revenues by \$47,815 consistent with**  
9 **the concept of normalization?**

10 A. No. As previously discussed, the Company recorded low levels of hydrant water sales  
11 between 2003 and 2005. In 2006 and 2007, the Company's revenues from hydrant water  
12 sales increased significantly. From the information provided by the Company, there has  
13 been no significant fluctuation of hydrant water sales within its certificated area. Rather,  
14 there has been a steady rise in revenues from hydrant water sales, from 2003 through  
15 2007. Thus, the Company's adjustment to normalize test year hydrant water sales is  
16 neither supported by empirical data nor standard ratemaking principles.

17  
18 **Q. Please explain Staff's conclusion.**

19 A. The Company's responses to Staff's data requests indicate that in aggregate, its hydrant  
20 waters sales in 2008 exceeded 2007 levels. The Company reported 29,489,400-gallons of  
21 hydrant water sale in 2008, which is 4,523,170-gallons over test year level. Also, the  
22 Company sold 13,455,600-gallons of hydrant water to the new Happy Valley contract,  
23 which is higher than 13,068,700-gallons reported for the Flood Control project during the  
24 test year. In 2008, the Company sold 9,273,300-gallons of hydrant water to the Flood  
25 Control project. From the Company's data, it is evident that the Sunrise generated more  
26 revenues from hydrant water sales in 2008 than the test year. Based on this data, the

1 Company's contention that hydrant water sales will decline post test-year is not supported  
2 by its 2008 records. Also, it appears that future revenues from the Happy Valley contract  
3 and other prospective contracts will exceed any loss that might result from cessation of the  
4 Flood Control contract.

5  
6 Within the context of ratemaking in Arizona, the Company's contention that future  
7 hydrant water sales could be overstated if test year hydrant water sales in not normalized,  
8 is speculative. The timing and impact of such occurrence is not known and measurable at  
9 this time. Accordingly, Staff finds that the Company's adjustment is speculative and  
10 unnecessary in this instant case.

11  
12 **Q. Please summarize Staff's findings regarding the proposed adjustment for hydrant**  
13 **water sales.**

14 **A.** Staff finds that the Company's proposal to adjusted test year revenues by \$47,815 for  
15 hydrant water sales is unwarranted, and recommends denial. As discussed above, the  
16 Company's empirical data indicates that at a minimum, it will continue to earn test year  
17 revenues from hydrant water sales. In conclusion, Staff finds that the Company's  
18 adjustment RLJ-8, and the related adjustment RLJ9, are not supported by empirical and  
19 post test-year data

20  
21 **Q. What is Staff's recommendation for test year revenues?**

22 **A.** Staff recommends an adjusted test year metered revenues of \$1,343,840, an increase of  
23 \$47,187 over the Company's adjusted test year revenues of \$1,296,025. Further, Staff  
24 accepts the Company's test year other operating revenues of \$8,338. As shown on  
25 Schedule AII-8, Staff recommends total test operating revenues of \$1,352,178.

**EXPENSES**

**Operating Income Adjustment Nos. 2 & 3– Salaries & Wages**

**Q. What is the Company's proposal for salaries & wages?**

A. The Company proposes \$414,840 for test year salaries and wages. The Company's proposal includes an annual salary of \$137,826 for its President, Mr. Campbell.

**Q. How is Staff's proposed adjustment to salaries and wages organized?**

A. Staff's adjustment of \$64,670 to salaries and wages is bifurcated into two sections. As fully discussed below, Operating Income Adjustment No. 2 discusses issues relating to Mr. Campbell's salaries, and Operating Income Adjustment No. 3 reclassifies incentive compensation from transportation expense.

**Operating Income Adjustment No.2 – Executive Compensation**

**Q. Please state the Company's reported salary for Mr. Campbell?**

A. As shown on Schedule C-2.14, page 1, the Company proposes an annual salary of \$137,826 for Mr. Campbell.

**Q. Did the Company provide any explanation for proposing an annual salary of \$137,826 for Mr. Campbell?**

A. Yes. The Company claims that Mr. Campbell is actively engaged in the day-to-day management of Sunrise, including issues relating to finance, Main Line Extension Agreements, regulatory matters and other ancillary matters. Further, the Company states that Mr. Campbell's salary is commensurate with his experience and level of participation in the management of the Company. Schedule C-2.14 indicates that Mr. Campbell is fully employed by Sunrise, for 40-hours each week.

1     **Q.     What is the relationship between Mr. Campbell and the Company?**

2     A.     Mr. Campbell is the sole shareholder and President of Sunrise. Mr. Campbell also is the  
3     President of West End Water Company and the Chief Executive Officer of other business  
4     ventures. Finally, Mr. Campbell is the lessor of the Company's corporate offices,  
5     vehicles, field office and yard, as well as barn, workshop and storage facilities. There is a  
6     significant level of affiliate interest relationship between the Company and Mr. Campbell.

7  
8     **Q.     Please comment on the Company's proposed salary for Mr. Campbell.**

9     A.     Staff finds that the Company's proposal to allocated 100 percent of Mr. Campbell's salary  
10    of \$137,826 to Sunrise is not supported since he engages in other business endeavors. As  
11    previously discussed, Mr. Campbell is the proprietor of several companies, including  
12    Sunrise, West End, and other business ventures. Therefore, Staff finds that it is  
13    impracticable for Mr. Campbell to devote 40-hours per week to the management of  
14    Sunrise, as inferred by the Company's recognition of 100 percent of his salary in this  
15    proceeding. As a result, Staff concludes that it is more appropriate to allocate Mr.  
16    Campbell's annual salary to all his business interests.

17  
18    **Q.     Is Mr. Campbell solely responsible for the management of Sunrise?**

19    A.     No. Sunrise's management team is comprised of Mr. Campbell as the President, Mr.  
20    Marvin Collins as Operations Manager, and Ms. Sheron Howard as Controller. Mr.  
21    Collins is a Certified Operator with day-to-day responsibility for all technical issues as  
22    well as some administrative supervision. Ms. Howard is responsible for accounting and  
23    supervision of administrative personnel. In other words, Mr. Collins and Ms. Howard  
24    have day-to-day responsibilities for the operations and management of the Company.  
25    Based on these facts, one can deduce that Mr. Campbell is primarily engaged with policy  
26    formulation and high level management.

1     **Q.     What is an appropriate level of remuneration for Mr. Campbell?**

2     A.     Staff finds that it would be more appropriate to allocate 50 percent of his compensation to  
3           other business interests. In this filing, the Company has allocated 20 percent of Mr.  
4           Collins and Ms. Sheron's salaries to West End. Staff finds that this allocation factor is  
5           reasonable and consistent with what was approved by the Commission in West End's most  
6           recent rate case. Also, Mr. Collins and Ms. Sheron are entirely devoted to the  
7           management of West End and Sunrise. In the Case of Mr. Campbell, Staff finds that it  
8           would be appropriate to allocate 20 percent of his time to West End, and 30 percent to his  
9           other business interests. As a result, Staff concludes that it is reasonable to allocate 50  
10          percent or \$68,913 of Mr. Campbell's salary to costs of service in this proceeding.

11  
12    **Q.     How does Staff's recommendation regarding Mr. Campbell's salary compare to the**  
13    **Board's resolution?**

14    A.     Although the Company's Board does not appear to be independent of Mr. Campbell, Staff  
15           review of its Minutes dated February 13, 2007, indicates that the Board approved an  
16           annual management fee of \$70,191.28 for Mr. Campbell. Thus, Staff's recommended  
17           annual salary of \$68,913 is reasonable and compares favorably to the management fees  
18           approved by the Company's Board, chaired by Mr. Campbell.

19  
20    Operating Income Adjustment No.3 – Incentive Compensation

21    **Q.     Did Staff find incentive compensation that was inappropriately classified as**  
22    **transportation expense?**

23    A.     Yes. Staff found that \$8,485 of incentive compensation was recorded as transportation  
24           expense, under a sub-account, titled gas and oil.

1     **Q.     Is it appropriate to record incentive compensation as transportation expense?**

2     A.     No. Incentive compensation is considered as part of employees' remuneration beyond  
3             normal salaries and wages. Therefore, it should be recorded as a component of salaries  
4             and wages.

5  
6     **Q.     Is Staff recommending that the entire \$8,485 of incentive compensation be**  
7             **reclassified to salaries and wages?**

8     A.     No. Staff recommends recognition of one-half of \$8,485 or \$4,243 of incentive  
9             compensation as cost of service in this proceeding. As fully discussed under  
10            transportation expense, the remaining \$4,242 should be borne by the Company's  
11            shareholders.

12  
13    **Q.     What is Staff's recommendation for incentive compensation?**

14    A.     As shown on Schedule AII-9, Adjustment #3, Staff recommends that the Commission  
15             approve \$4,243 as an appropriate level of incentive compensation for the Company. A  
16             corresponding adjustment is made to eliminate the effect of this adjustment from  
17             transportation expense.

18  
19    **Q.     Please summarize Staff's recommendation for salaries and wages.**

20    A.     As shown on Schedule AII-9, Staff recommends \$350,170 for salaries and wages, a net  
21             adjustment of \$64,670 to the Company's proposal of \$414,840.

**Operating Income Adjustment No. 4 – Purchased Power**

**Q. What is the Company proposing for purchased power expense?**

A. The Company proposes \$169,673 for purchased power expense. This proposal reflects Company Adjustment RLJ-9, a reduction of \$7,069 relating to pumping power costs for hydrant water sales.

**Q. Why did the Company propose Adjustment RLJ-9?**

A. As exhaustively discussed in Staff's Operating Income Adjustment No. 1, Company Adjustment RLJ-9 is a companion adjustment to its proposal to decrease test year revenues by \$47,187 of its hydrant water sales. The Company claims that Adjustment RLJ-9 reduces purchased power expense to a commensurate level with its normalized hydrant water sales.

**Q. Did Staff recommend denial of the Company's adjustment to decrease test year hydrant water sales?**

A. Yes.

**Q. Based on Staff's recommendation regarding test year hydrant water sales, it is still appropriate to effect a corresponding reduction to purchased power expense?**

A. No. Staff's conclusion to reinstate the Company's adjustment to purchased power expense is consistent with its recommendation to give full recognition to the Company's test year hydrant water sales. This conclusion is predicated on Staff's finding that the Company will continue to pump and sell a similar or higher quantity of hydrant water, on a going forward basis.

1 **Q. What is Staff's recommendation for purchased power expense?**

2 A. As shown on Schedule AII-10, Staff recommends adoption of the Company's recorded  
3 test year purchased power expense of \$176,742. Staff's recommendation reinstates the  
4 Company's proposal to eliminate \$7,069 of purchased power expense, per Adjustment  
5 RLJ-9.

6  
7 **Operating Income Adjustment No. 5 – Office Supplies Expense**

8 **Q. Please state the Company proposed test year office expense.**

9 A. The Company proposes \$53,733 for office expense. This expense includes \$1,500 for the  
10 lease costs of the Arrowhead Mini Storage facility ("Arrowhead Facility").

11  
12 **Q. Please describe the nature of the Company's recorded office expense for the leased  
13 storage facility.**

14 A. During Staff's audit of the Company's financial records, we found that the Company  
15 leased the Arrowhead Facility, at a monthly cost of \$125 which equals total yearly cost of  
16 \$1,500.

17  
18 **Q. Is the Company's recorded rental expense an appropriate cost of service?**

19 A. Yes. Staff finds that the costs incurred by the Company for the Arrowhead Facility is  
20 appropriate and reasonable.

21  
22 **Q. It is appropriate to record rental expense as part of office supplies expense?**

23 A. No. It is more appropriate to classify the lease costs relating to the Arrowhead Facility as  
24 a rent expense. Accordingly, Staff's adjustment reclassifies \$1,500, for the lease cost,  
25 from office supplies expense to rent expense. This adjustment reduces office supplies



1 expense; and a corresponding adjustment to increase rent expense is shown on Schedule  
2 AII-14.

3  
4 **Q. What is Staff's recommendation for office supplies expense?**

5 A. As shown on Schedule AII-11, Staff recommends \$52,233 for office supplies expense,  
6 \$1,500 less than the Company's proposal of \$53,733.

7  
8 **Operating Income Adjustment No. 6 – Outside Services**

9 **Q. Please state the Company's proposal for outside service expense.**

10 A. As shown on Schedule C-1, page 1, the Company proposes \$45,163 for outside service  
11 expense.

12  
13 **Q. Did Staff analyze the Company's proposed outside service expense?**

14 A. Yes. Staff's review and audit of test year financial records indicate that the Company's  
15 recorded outside service expense includes \$27,000 for lobbying activities.

16  
17 **Q. How is lobbying expense treated in rate proceedings?**

18 A. In general, lobbying expense is treated as a below the line item in ratemaking. Thus,  
19 lobbying expense is excluded from costs of service, and the determination of operating  
20 income.

21  
22 **Q. Why is lobbying expense excluded from ratemaking?**

23 A. As a ratemaking principle, lobbying cost is excluded from cost of service because it is an  
24 expense that is incurred at the discretion of the management, for purposes that are not  
25 directly beneficial to the ratepayers. As a result, ratepayers should not be compelled to

1 pay for such activities through rates. In this instant case, the lobbying expense relates to  
2 legislative activities that have no direct benefit to ratepayers.

3  
4 **Q. If lobbying expense was an allowable expense in rate proceedings, would it be**  
5 **appropriate to charge the ratepayers the Company incurred cost?**

6 A. No. Because the Company has not demonstrated that this expense is recurring or provides  
7 any benefit to ratepayers. Accordingly, it should be disallowed.

8  
9 **Q. What is Staff's recommendation for outside services expense?**

10 A. As shown on Schedule AII-12, Staff recommends \$18,213 for outside services, which is  
11 \$27,000 less than the Company's proposal.

12  
13 **Operating Income Adjustment No. 7 – Water Testing Expense**

14 **Q. What did the Company propose for water testing expense?**

15 A. The Company proposes \$2,635 for water testing expense.

16  
17 **Q. Is the Company required to participate in the Monitoring Assistance Program**  
18 **("MAP") for water testing?**

19 A. Yes. The Company is subject to mandatory participation in the MAP. This requirement is  
20 fully discussed by Staff witness Mr. Jian W. Liu at page 4 of Staff Exhibit JWL.

21  
22 **Q. Did Staff review the appropriateness of the Company's reported water testing**  
23 **expense?**

24 A. Yes. Staff's analysis of the Company's reported water testing cost indicates that it is less  
25 than an appropriate level for MAP testing. Based on MAP's parameters for determining  
26 water testing costs, Staff estimates the Company's water testing cost at \$4,819.

1 **Q. Is Staff recommending adoption of its calculated MAP water testing cost in this**  
2 **proceeding?**

3 A. Yes. Staff recommends adoption of \$4,819 as an appropriate level of water testing  
4 expense for the Company.

5  
6 **Q. What is Staff's recommendation for water testing expense in this proceeding?**

7 A. As shown on Schedule AII-13, Staff recommends \$4,819 for water testing expense, which  
8 is \$2,184 over the Company's reported test year expense of \$2,635.

9  
10 **Operating Income Adjustment Nos. 8, 9, 10 & 11 – Rent Expense**

11 **Q. What did the Company propose for rent expense?**

12 A. The Company proposes \$37,664 for rent expense. The Company's proposal is comprised  
13 of \$12,487 for barns, workshop, and storage, \$69 for equipment rental, and \$25,108 for  
14 office and yard rental.

15  
16 **Q. How is Staff's testimony organized for rent expense?**

17 A. Staff's testimony regarding rent expense encompasses four distinct sub-categories. For  
18 ease of understanding, each category is separately discussed as an adjustment. As fully  
19 discussed below, Operating Income Adjustment No. 8 relates to the Company's lease of  
20 barn, workshop and storage from Mr. Campbell, Operating Income Adjustment No. 9  
21 discusses the Company's lease of office and yard from Mr. Campbell, Operating Income  
22 Adjustment No. 10 reclassifies the cost of Arrowhead Facility from office supplies  
23 expense, and Operating Income Adjustment No. 11 reclassifies corporate offices lease cost  
24 from miscellaneous expense.

Operating Income Adjustment No.8 – Barn, Workshop & Storage

**Q. What is the Company's test year lease cost for barn, workshop, and storage?**

**A.** The Company reports a lease cost of \$12,487 for barn, workshop, and storage.

**Q. Please describe the purpose of the Company's reported lease expense for barn, workshop and storage.**

**A.** The Company claims that the barn is reportedly utilized by its field personnel for storage and housing of its workshop.

**Q. Did Staff inspect these facilities during audit and engineering field inspection?**

**A.** Yes. Staff inspected these facilities as a part of its audit procedures and field inspection. During the visit, Staff observed that the barn houses what appears to be a domestic workshop. In other words, Staff found no evidence that these facilities are being utilized by the Company as a workshop or that the facilities are necessary for the provision of service. Further, Staff found that the barn contained significant number of personal household items that are not required for provision of utility service. Based on Staff's observation, it appears that the Company's reported cost is unwarranted for provision of service.

**Q. Can the Company store its materials and supplies at its own facility?**

**A.** Yes. The Company can store its materials and equipment within the premises of Well #7, at no cost to ratepayers. Well #7 is located on 1.83-acres, approximately one-mile from the Company's corporate offices. The well site is fenced, gated and has adequate space to store the Company's materials and equipments. Further, the Company has a leased space at Arrowhead Facility that can be used for safe keeping of historic records. As a result,

1 Staff concludes that the Company's leased barn, workshop and storage, are unnecessary to  
2 for provision of service.

3  
4 **Q. Did Staff find that these facilities were leased in an arms-length transaction?**

5 A. No. The reported cost far exceed market rate for the leased facilities. Staff observed that  
6 these facilities are aged and do not have necessary amenities to attract a market rate of  
7 \$12,487 a year. Further, Staff notes that these facilities are owned by Mr. Campbell, who  
8 is the sole shareholder and Chairman of the Board that approves such contracts.

9  
10 **Q. What is Staff's recommendation regarding barn, workshop and storage?**

11 A. Staff recommends that the Commission deny the Company's test year cost for barn,  
12 workshop and storage lease. Accordingly, Staff's adjustment reduces rent expense by  
13 \$12,487.

14  
15 Operating Income Adjustment No.9 – Field Office & Yard Rent

16 **Q. What cost did the Company incur for the lease of field office and yard?**

17 A. The Company incurred \$25,108 for the lease of field office and yard, during the test year.

18  
19 **Q. What is the purpose of the Company leased field office and yard?**

20 A. The Company claims that the small office contained within Mr. Campbell's residential  
21 property provides meeting space for its field personnel while the yard is being used for  
22 storage.

1 **Q. Please comment on the Company leased office and yard contract.**

2 A. This lease arrangement has similar characteristics with the barn, workshop and storage  
3 lease. Again, Staff did not find any evidence to support the Company's claim that these  
4 facilities are necessary for provision of service. As previously discussed, the Company  
5 has ample secured space at Well #7 to store its pipes and related materials. Second, the  
6 Company's Operations Supervisors has an office at the Company's corporate offices that  
7 could be used for planning and meeting with the field personnel. Finally, the lease costs  
8 far exceed market rate for these facilities. Based on the above analysis and Staff's  
9 observation of these facilities, Staff recommends denial of the related cost as cost of  
10 service in this proceeding.

11  
12 **Q. What is Staff's recommendation for leased office and yard cost?**

13 A. Staff recommends elimination of the cost of office and yard lease, in the amount of  
14 \$25,108, from rent expense.

15  
16 Operating Income Adjustment No.10 – Arrowhead Facility Lease

17 **Q. Has Staff recommended reclassifying storage lease expense from office supplies**  
18 **expense to rent expense?**

19 A. Yes. As shown of Schedule AII-11 and fully explained under Operating Income  
20 Adjustment No. 5, Staff has reclassified \$1,500 for Arrowhead Facility lease, from office  
21 supplies expense to rent expense.

22  
23 **Q. Why did Staff reclassify lease expense from office supplies expense to rent expense?**

24 A. Lease cost is normally recorded as a component of rent expense. Staff found that the  
25 Company erroneously recoded test year lease expense as a component of office supplies

1 expense. This adjustment simply reclassifies the storage facility lease costs, from office  
2 supplies expense, to correct for the Company's error.

3  
4 **Q. What is Staff's recommendation regarding the Arrowhead Facility?**

5 A. As shown on Schedule AII-14, Staff recommends an increase of \$1,500 to rent expense.  
6 This adjustment effects Staff's reclassification of the Arrowhead Facility lease cost from  
7 office supplies expense.

8  
9 Operating Income Adjustment No. 11 – Office Rent

10 **Q. Did the Company include corporate offices lease cost in test year miscellaneous**  
11 **expense?**

12 A. Yes. The Company erroneously recorded \$19,521 of corporate offices lease cost as  
13 miscellaneous expense, under overhead expense.

14  
15 **Q. Is rent expense a different account class than miscellaneous expense?**

16 A. Yes. In general, miscellaneous expense is utilized for recording minor expenses that  
17 cannot be classified to other major accounts. Because the Company has a designated  
18 account for rent expense, its corporate offices lease cost should be reclassified to rent  
19 expense.

20  
21 **Q. Did Staff reclassify the Company's corporate office lease costs from miscellaneous**  
22 **expense?**

23 A. Yes. Staff recommends reclassifying \$19,521 of corporate offices lease cost from  
24 miscellaneous expense to rent expense. This reclassification increases Staff adjusted rent  
25 expense by \$19,521. A corresponding adjustment has been made to decrease  
26 miscellaneous expense.

1 **Q. Please summarize Staff's analysis regarding rent expense**

2 A. As shown on Schedule AII-14, Staff recommends a net adjustment of \$16,574 to rent  
3 expense. This net adjustment reflects Staff's proposal to eliminate \$12,487 for barn,  
4 workshop and storage lease; eliminate \$25,108 for office and yard lease; increase rent  
5 expense by \$1,500 to effect reclassification of the Arrowhead Facility lease cost, and  
6 increase rent expense by \$19,521 to reflect reclassification from miscellaneous expense.

7  
8 **Q. What is Staff's recommendation for rent expense?**

9 A. Staff recommends \$21,090 for rent expense, \$16,574 less than the Company's proposal.  
10 Staff's recommended rent expense reflects the net impact of Staff Adjustment Nos. 8, 9,  
11 10 and 11.

12  
13 **Operating Income Adjustment Nos. 12, 13 & 14 - Transportation Expense**

14 **Q. Please state the Company's proposal for transportation expense.**

15 A. The Company proposes \$74,769 for transportation expense.

16  
17 **Q. What are the characteristics of the Company's test year transportation expense?**

18 A. The Company's test year transportation expense is comprised of \$21,763 for leased  
19 vehicles, \$23,845 for gas and oil, \$16,505 for repairs and maintenance, and \$12,656 for  
20 licenses and fees. Further examination shows that the gas and oil expense includes \$8,486  
21 for employee bonuses, and the license and fees subaccount includes \$6,300 of bonding  
22 fees.

23  
24 **Q. How is Staff's adjustments relating to transportation expense organized?**

25 A. As indicated above, transportation expense is comprised of several subaccounts. Because  
26 Staff's adjustments relates to several subaccounts, an adjustment to each subaccount is



1 separately discussed for ease of understanding. A summary of Staff's net adjustment to  
2 transportation expense is shown on Schedule AII-15.

3  
4 Operating Income Adjustment No.12 – Vehicle Lease

5 **Q. What is the nature of the Company's leased vehicles?**

6 A. The Company leases three vehicles from Mr. Campbell. The leased vehicles consist of  
7 2005 Ford F-150, 2004 Ford F-250 and 2002 Chevy Silverado. The 2005 Ford F-150 and  
8 2004 Ford F-250 are leased at a unit cost of \$703 per month, while the 2002 Chevy  
9 Silverado is leased at \$407 per month. These vehicles are currently being used for field  
10 operations.

11  
12 **Q. Please comment on the Company's vehicle lease arrangement.**

13 A. Staff finds that the reported vehicles are necessary for the provision of service. However,  
14 Staff's research of lease offers for newer vehicles of the same make and model indicates  
15 that the reported lease rate for the 2005 Ford F-150 and 2004 Ford F-250 exceeds market  
16 rates.

17  
18 **Q. Did Staff conduct any research of appropriate lease rates for the Company's  
19 vehicles?**

20 A. Yes. Staff researched the internet for market lease rates for 2008 Ford F-150 and Ford F-  
21 250. Staff found that the current market rates range between \$538 and \$557 per month,  
22 for a 60-month lease. Although the lease rates for new vehicles is generally higher than  
23 rates for older vehicles of the same model, the 2008 rates are representative of what a  
24 willing buyer would pay a willing seller in an arms-length transaction.

1 **Q. Based on the above research, what is as an appropriate lease rate for the Company's**  
2 **vehicles?**

3 A. Staff finds that a monthly lease rate of \$557 is representative of the market rate for Ford F-  
4 150 and Ford F-250. Based on this finding, Staff has determined that the Company's  
5 annual lease cost per vehicle should not exceed \$6,684, a total of \$13,368 for both  
6 vehicles. Staff's recalculated lease costs is \$3,507 less than the Company's reported costs  
7 of \$16,875 for both vehicles.

8  
9 **Q. Did Staff review the lease cost relating to Chevrolet Silverado?**

10 A. Yes. Staff found the Company's reported lease rate for this vehicle is reasonable.  
11

12 **Q. Please summarize Staff's recommendation for vehicle lease.**

13 A. Based on the above analysis, Staff recommends an aggregate cost of \$18,255 for the three  
14 leased vehicles. Staff's recommendation is \$3,507 less than the Company's proposal of  
15 \$21,763.  
16

17 Operating Income Adjustment No.13 – Incentive Compensation

18 **Q. Is the Company proposing an incentive compensation for its employees in this**  
19 **proceeding?**

20 A. Yes. The Company reports \$8,485 of incentive compensation, in the form of bonuses, in  
21 the gas and oil subaccount.  
22

23 **Q. Is it appropriate to record incentive compensation or employee bonuses under**  
24 **transportation expense?**

25 A. No. In general, incentive compensation or employee bonuses are recorded under salaries  
26 and wages.

1 **Q. What is the Company's rationale for paying incentive bonuses to its employees?**

2 A. The Company claims in its response to Staff data requests AII 3-3, that:

3  
4 "Sunrise Water Co. uses incentive bonuses to recognize individuals for  
5 their exceptional effort in providing critical services to customers. Often  
6 customers needs dictate that personnel work on projects and assignments  
7 outside of normal business hours and under difficult conditions. For  
8 example, personnel are recognized for their quick response and  
9 conscientiousness shown in responding to water leaks and customer's  
10 call for service questions and problems during and after normal work  
11 hours. Sunrise believes that the extra effort of its employees results in  
12 superior customer service, saves time and expense and assists Sunrise in  
13 meeting its goal to provide safe reliable water that meets or exceed the  
14 safe drinking water standards. In addition, the incentive bonus program  
15 assists in employee retention and insures a knowledgeable work force.  
16 Without the incentive bonus program, Sunrise would need to raise base  
17 salaries to be competitive in the market and to retain employees."

18  
19 **Q. Please comment on the Company's justifications for providing incentive**  
20 **compensation to its employees.**

21 A. Staff is not opposed to the Company's proposal to provide incentive compensation to its  
22 employees. However, Staff found no evidence that the Company's incentive  
23 compensation is based on a predefined performance plan or policy. Absent a predefined  
24 incentive compensation policy, the Company's reported cost appears discretionary.  
25 Further, Staff finds in this case, as with other cases, that incentive compensation provides

1 benefit to investors and ratepayers. As a result, Staff recommends that the cost be borne  
2 equally by ratepayers and shareholders.

3  
4 **Q. What is Staff's recommendation for incentive compensation in this proceeding?**

5 A. Staff recommends allocation of one-half or \$4,243 of the Company's reported incentive  
6 compensation to the ratepayers. The balance of \$4,242, attributable to the benefit of the  
7 Company's investors, should be denied and excluded from cost of service.

8  
9 In addition, Staff recommends that the Company develop a comprehensive Performance  
10 Based Incentive Compensation, for Staff's review in the next proceeding.

11  
12 **Q. Did Staff reclassify its recommended incentive compensation to salaries and wages?**

13 A. Yes. As shown on Schedule AII-15, Staff has reclassified \$4,243 of incentive bonuses to  
14 salaries and wages, while excluding \$4,242 from operating expense. This adjustment  
15 reduces transportation expense by a total of \$8,485. As shown on Schedule AII-9, Staff  
16 made a corresponding adjustment to increase salaries and wages by \$4,243 of incentive  
17 compensation.

18  
19 **Operating Income Adjustment No.14 - License & Fees**

20 **Q. Did the Company include bonding fees in its reported transportation expense?**

21 A. Yes. The Company reported \$6,300 of bonding fees under the license and fees  
22 subaccount.

1 **Q. Are bonding fees necessary for transportation?**

2 A. No. Staff's analysis indicates that bonding fees are not a normal component of  
3 transportation expense for a utility company. In this instance, Staff finds no evidence that  
4 the Company's reported bonding fees of \$6,300 is a recurring cost of service.

5  
6 **Q. What is Staff's recommendation regarding bonding fees in this proceeding?**

7 A. Staff recommends eliminating \$6,300 of bonding cost from transportation expense.

8  
9 **Q. Please summarize your recommendation for transportation expense.**

10 A. As shown on Schedule AII-15, Staff recommends a total of \$56,477 for transportation  
11 expense, a net reduction of \$18,292 to the Company's proposal of \$74,769. This net  
12 adjustment reflects Staff Operating Income Adjustment Nos. 12, 13, and 14.

13  
14 **Operating Income Adjustment No. 15, 16, 17, 18, & 19 - Miscellaneous Expense**

15 **Q. What did the Company propose for miscellaneous expense?**

16 A The Company proposes a negative balance of \$21,980 for miscellaneous expense. The  
17 Company's proposal is comprised of several subaccounts, including permits and recording  
18 fees, entertainment and promotions, capitalized overhead, overhead expense for corporate  
19 office rent, preliminary investment into water supply, and Water Line Extension ("WLX")  
20 repayments.

21  
22 **Q. How is Staff's testimony regarding miscellaneous expense organized?**

23 A. Again, Staff's adjustment to each subaccount is separately discussed under Operating  
24 Income Adjustment Nos. 15, 16, 17, 18, and 19.

25

Operating Income Adjustment No.15 –Permit and Recording

**Q. Did the Company incur permit and recording cost during the test year?**

A. Yes. The Company recorded \$3,992 for permit and recording cost in the test year. This cost was reported as a component of test year miscellaneous expense.

**Q. In general, why do utility companies incur permit and recording fees?**

A. Permit and recording costs are incurred for capital projects and the costs are capitalized as a component of original costs.

**Q. Is the Company's proposal to reflect permit and recording fees as an operating expense appropriate?**

A. Permit and recording fees are capital costs that should not be recorded as operating expenses. The Company's recorded permit and recording are non-recurring operating expenses.

**Q. Please state Staff's recommendation regarding test year permit and recording fees.**

A. Staff recommends removal of permit and recording from cost of service. Accordingly, Staff reduces transportation expense by \$6,300.

Operating Income Adjustment No.16 –Entertainment & Promotion

**Q. What is the Company proposing for entertainment and promotion expense?**

A. The Company's filing included \$4,785 for entertainment and promotion.

**Q. Did Staff review the Company's test year entertainment and promotions cost?**

A. Yes. Staff audited the Company's test year entertainment and promotion cost, and found that it includes \$2,285 for flowers, and hosting of retirement parties.

1 **Q. Is Staff recommending denial of \$2,285 of entertainment and promotion?**

2 A. Yes. The cost of flowers, and hosting of retirement party do not provide any benefit to  
3 rate payers. If the Company desires to have retirement parties and gift flowers, the cost  
4 should be borne by its shareholders, not the ratepayers. Thus, Staff's recommended  
5 amount pertains to cost of employee training.

6  
7 **Q. What is Staff's recommendation for entertainment and promotion expense?**

8 A. Staff recommends \$2,500 for employee training, a reduction of \$2,285 from the  
9 Company's proposal.

10  
11 Operating Income Adjustment No.17 – Preliminary Investment in Water Supply

12 **Q. Did the Company reflect the cost of preliminary investment in water supply, in**  
13 **miscellaneous expense?**

14 A. Yes. The Company reported a negative balance of \$6,413 for preliminary investment in  
15 water supply.

16  
17 **Q. Is preliminary investment in water supply a recurring expense?**

18 A. No. Preliminary investment in water supply is not a recurring operating expense for a  
19 water utility company. If preliminary investment in a capital project does not result in the  
20 construction of a plant item, the cost is written-off in the year of incurrence. In the event  
21 that preliminary investment results in a constructed facility, the cost is capitalized as part  
22 of the plant's original cost. In this instance, the Company is requesting that its cost of  
23 service be reduced by \$6,413. If the Company's proposal is adopted, operating expenses  
24 will be understated by \$6,413.

1     **Q.     What is the appropriate treatment for preliminary investment in water supply?**

2     A.     The Company's proposal to reduce cost of service by \$6,413 should be reversed to correct  
3             for this error. Preliminary investment in water supply is non-recurring, and the  
4             Company's proposal understates test year operating expenses.

5  
6     **Q.     What is Staff's recommendation regarding preliminary investment in water supply?**

7     A.     As shown on Schedule AII-18, Staff increases operating expense by \$6,413 to reverse the  
8             Company's proposal.

9  
10    Operating Income Adjustment No.18 – Capitalized Overhead

11    **Q.     Did the Company include capitalized overhead in operating expenses?**

12    A.     Yes. The Company reported a negative balance of \$50,216 for capitalized overhead in its  
13             test year operating expenses.

14  
15    **Q.     What is the Company's explanation for recording capitalized overhead as an**  
16             **operating expense?**

17    A.     The Company witness, Mr. Jones testifies, at Page 5, line 4, that "Income Statement  
18             Adjustment RLJ 10 normalizes the level of expense charged to capital. Sunrise charges a  
19             portion of its administrative and general expense to capital projects. The level of expense  
20             charged to capital is dependent upon the level of capital expenditures." The Company  
21             claims that because its test year level of administrative and general expense for capital  
22             projects was unusually high, its reported balance of \$50,216 reflects a normalized level for  
23             its operations.



1     **Q.     Is capitalized overhead a normal operating cost?**

2     A.     No. The Company is reporting a negative balance of \$50,216, which in effect, is a  
3             reduction to cost of service. In other words, the Company's proposal understates cost of  
4             service by \$50,216.

5  
6     **Q.     Is it typical to record capital costs as part of operating expenses?**

7     A.     No. In general, overhead cost incurred for capital projects are capitalized as part of the  
8             plant's original cost. Also, overhead expenses incurred for capital projects that have been  
9             recorded as operating expense, are reclassified for capitalization as original cost of the  
10            related plant item.

11  
12    **Q.     Please explain your understanding of the Company's reported capitalized overhead.**

13    A.     Staff found in the course of the Company's audit, that Sunrise charges management fees  
14             for projects that it supervises on behalf of developers. Such management fees are included  
15             in the determination of AIAC or CAIC that is paid by developers. The proper treatment is  
16             to capitalize such overhead cost in the original cost of the related projects. Based on our  
17             observation, it appears that Sunrise erroneously books its AIAC and CAIC related  
18             overhead costs to operating expenses. The Company has attempted to correct for this  
19             error by reducing its test year balance by \$106,658. However, the Company retained a  
20             negative adjusted balance of \$50,216 in its test year cost of service. This remaining  
21             negative balance of \$50,216 must be eliminated from operating expenses because it has  
22             been borne by the developers. Second, the Company's reported balance understates cost  
23             of service by \$50,216. Finally, it is not a normal recurring cost of service to the  
24             ratepayers.

1 **Q. What is Staff's recommendation regarding capitalized overhead?**

2 A. Based on the above findings, Staff recommends eliminating the company's negative  
3 balance of \$50,216 from cost of service. Staff's recommendation will ensure that the  
4 Company's operating expense is accurately reflected in this proceeding.

5  
6 Further, Staff recommends that the Company adopts proper accounting procedures for  
7 recording capitalized overhead. In this regard, Staff recommends that the Company  
8 adopts National Association of Regulatory Utility Commissioners ("NARUC") Uniform  
9 Systems of Accounting ("USoA") for recording overhead relating to plant.

10  
11 Operating Income Adjustment No.19 – Office Rent

12 **Q. Did the Company include rent in its reported miscellaneous expense?**

13 A. Yes. The Company erroneously recorded \$19,521 of corporate offices rent as  
14 miscellaneous expense.

15  
16 **Q. Is rent expense a different account class than miscellaneous expense class?**

17 A. Yes. In general, miscellaneous expense is utilized for recording expenses that minor in  
18 nature and cannot be classified to other major accounts. Rent expense is a major operating  
19 expense account class for recording rental and lease costs.

20  
21 **Q. Is Staff recommending that corporate offices rent be reclassified from miscellaneous  
22 expense to rent expense?**

23 A. Yes. Staff recommends reclassifying \$19,521 of corporate offices lease cost from  
24 miscellaneous expense to rent expense. As shown on Schedule AII-16, this  
25 recommendation decreases miscellaneous expense by \$19,521. A corresponding  
26 adjustment has been effected to increase rent expense by \$19,521.

1     **Q.     Please summarize Staff's recommended adjustments to miscellaneous expense.**

2     A.     Staff recommends an adjusted test year miscellaneous expense of \$8,851. Staff's  
3           recommendations eliminate \$3,992 for permits and recording, decreases entertainment and  
4           promotion by \$2,285, increases preliminary investment in water supply by \$6,413,  
5           increases capitalized overhead by \$50,216 to eliminate the negative balance, and  
6           reclassifies \$19,521 from corporate office lease to rent expense. In aggregate, Staff  
7           recommends an increase of \$30,831 over the Company reported negative year-end balance  
8           of \$21,980.

9  
10    **Q.     What is Staff's recommendation for miscellaneous expense?**

11    A.     As shown on Schedule AII-16, Staff recommends approval of \$8,851 as an appropriate  
12           level of miscellaneous expense for the Company.

13  
14    **Operating Income Adjustment No. 20 - Depreciation and Amortization Expense**

15    **Q.     What is the Company's proposed depreciation and amortization expense?**

16    A.     The Company proposes \$395,853 of depreciation and amortization. This is comprised of  
17           \$414,748 for depreciation expense, less \$18,893 of amortization of CIAC.

18  
19    **Q.     Did the Company propose new deprecation rates in this filing?**

20    A.     The Company proposed new depreciation rates for each plant class in this rate filing. The  
21           Company claims that its proposed depreciation rates are consistant with rates approved by  
22           the Commission for other water companies.

1 **Q. Did Staff review the Company's proposed depreciation rates?**

2 A. Yes. Staff agrees that the Company's proposed depreciation rates are consistent with  
3 recent Commission approved rates for other water utility companies. Staff recommends  
4 adoption of the new depreciation rates, on a going forward basis.

5  
6 **Q. Did Staff re-calculate depreciation and amortization expense based on the Company  
7 proposed new depreciation rates?**

8 A. Yes. Staff recalculated depreciation expense by multiplying Staff adjusted test year end  
9 depreciable plant in service by Company proposed depreciation rate for each plant class.  
10 Staff's recalculation results in \$406,853 of depreciation expense, which is \$10,210 over  
11 the Company's proposal. The variance between Staff's recommended and the Company's  
12 proposed depreciation expense is attributable to the Company's revision to certain  
13 depreciable plant in service, subsequent to its original filing.

14  
15 **Q. What is Staff's recommendation for depreciation expense?**

16 A. As shown on Schedule AII-17, Staff recommends \$406,853 for depreciation and  
17 amortization expense.

18  
19 **Operating Income Adjustment No 21 - Property Taxes**

20 **Q. What did the Company propose for property taxes?**

21 A. The Company proposes \$64,714 for property taxes. The Company's proposal was derived  
22 by employing an adaptation of the Arizona Department of Revenues' ("ADOR") Centrally  
23 Valued Properties methodology.

1 **Q. Does the ADOR's centrally valued methodology provide an acceptable basis for**  
2 **determination of property taxes in Arizona?**

3 A. Yes. Staff accepts the Company's use of an adaptation of ADOR's Centrally Valued  
4 Properties methodology. However, the Company adopted an assessment ratio of 23.00  
5 percent in its calculation of property taxes. Staff finds that an assessment ratio of 22.50  
6 percent, more appropriately reflects a normalized ratio for a three period. This is the  
7 period that the revenue requirement approved in this proceeding will be in effect. As  
8 shown of Schedule AII-19, Staff has adopted an assessment ratio of 22.50 percent in the  
9 calculation of its recommended property tax expense.

10  
11 **Q. Did Staff recompute property taxes based on ADOR methodology?**

12 A. Yes. Staff's recalculated test property tax expense is based on the same methodology  
13 utilized by the Company. Staff's recalculation results in an adjusted test year property tax  
14 expense of \$42,729, which is \$21,985 less than the Company's proposal.

15  
16 **Q. What is Staff's recommendation for test year property taxes?**

17 A. As shown on Schedule AII-19, Staff recommends adjusted test year property tax expense  
18 of \$42,729.

19  
20 **Operating Income – Income Taxes**

21 **Q. Did the Company record income tax expense for the test year?**

22 A. No.

23  
24 **Q. Is Staff recommending test year income tax expense for the Company?**

25 A. No.

26

1 **Q. Please explain why Staff is not recommending test year income tax expense for the**  
2 **Company.**

3 A. As previously stated, Sunrise is a Subchapter S corporation under the Internal Revenue  
4 Service ("IRS") codes. The IRS' approval of the Company's request to be treated as a  
5 Subchapter S exempts it from corporate tax. Because the Company is exempt from  
6 corporate tax, it does not incur income tax expense as cost of service. Accordingly, Staff  
7 recommends no income tax expense for the Company in this proceeding.  
8

9 **RATE DESIGN**

10 **Q. Please describe the structure of the Company's current rate design**

11 A. The Company's current tariff has a single or flat commodity rate of \$2.85 for all levels of  
12 consumption. Its authorized monthly minimum charge varies by each meter size, and has  
13 no gallonage. In other words, the company's monthly minimum does not include any  
14 water consumption. Further, the Company has approved tariffs for meter installation  
15 charges and service fees.  
16

17 **Q. Please describe the Company's proposed rate design in this proceeding.**

18 A. The Company is proposing a three-tiered rate design for ¾-inch meter, and a two-tiered  
19 rate design for all other meter sizes. It proposes identical rate structure for residential and  
20 commercial customers on the same meter size. Further, the Company has a different  
21 break-over point for each meter size, and the break-over point is higher for larger sized  
22 meters. For example, the break-over point for a ¾-inch meter is 4,000-gallons for the first  
23 tier, 18,000-gallons for the second-tier, and above 18,000-gallons for the third-tier. For a  
24 1"-meter, the Company proposes a break-over point of 27,000-gallons for the first tier and  
25 above 27,000-gallons for the second tier. Consistent with its proposed rate structure for  
26 the ¾-inch meter, the Company has proposed three commodity rates. The Company

1 proposes a commodity rate of \$3.00 per 1,000-gallons for the first-tier; \$3.40 per 1,000-  
2 gallons for the second-tier and \$3.70 per 1,000-gallons for the third-tier. For other meter  
3 sizes, 1" and above, the Company proposes adoption of the second commodity rate of  
4 \$3.40 per 1,000-gallons for the first tier and the third commodity rate of \$3.70 per 1,000-  
5 gallons for the second tier. For example, a customer on a 1-inch meter will be billed at  
6 \$3.40 per 1,000-gallons for the first-tier and \$3.70 per 1,000-gallons for the second-tier.  
7 For both the coin-operated machine and hydrant water sales, the Company proposes a flat  
8 commodity rate of \$3.40 per 1,000-gallons.

9  
10 For each meter size, the Company is proposing a monthly minimum charge that varies by  
11 meter size, and reflects high rates for larger sized meters. For example, the Company  
12 proposes a monthly minimum charge of \$15.00 for a ¾-inch metered customer, while  
13 proposing a minimum charge of \$20.50 for a 1-inch metered customer.

14  
15 **Q. What is the Company's rationale for proposing an inverted tiered rate structure in**  
16 **this proceeding?**

17 **A.** The Company claims that its proposal is intended to promote water conservation by  
18 allocating higher rates to customers that place greater demand on the water system. Also,  
19 the Company states that its proposed break-over points were established below the  
20 average usage for each meter size to encourage customers with the largest consumption  
21 patterns to conserve water.

1     **Q.     Did the Company propose any modification to its current service charges and service**  
2     **line and meter installation charges?**

3     A.     Yes. The Company proposes higher rates for service charges, and service line and  
4     installation charges. This proposal reflects prevailing costs of providing these services.  
5     Also, the Company has proposed a new tariff for private fire service.

6  
7     **Q.     Please comment on the Company's proposed rate design.**

8     A.     Staff agrees with the Company that its proposed tiered rate structure and the  
9     corresponding break-over points will foster Commission goal of water conservation.  
10    However, Staff is recommending a different second break-over point for residential and  
11    commercial customers on ¾-inch meter.

12  
13    **Q.     Is Staff recommending adoption of the Company proposed rate design structure in**  
14    **this proceeding?**

15    A.     Yes, in part. As previously discussed, Staff finds that the Company proposed tiered rate  
16    structure and the related break-over points are reasonable and consistent with the  
17    Commission goal of fostering water conservation in Arizona State. For residential and  
18    commercial customers on ¾" meter, Staff recommends adoption of the Company's  
19    proposed break-over point of 4,000-gallons for the first tier, while recommending a break-  
20    over point of 13,000-gallons for the second tier and above 13,000-gallons for the third tier.  
21    Further, Staff has reconfigured the Company's rate design to yield higher revenues from  
22    monthly minimum charges. To effect this change, Staff recommends a rate design that  
23    yields 27.73 percent of the Company's revenue requirement from monthly minimum  
24    charges.



1 **Q. Please describe Staff's recommended rate design.**

2 A. Staff recommends the adoption of the Company proposed tiered rate structure. To ensure  
3 that the Company generates higher revenues from monthly minimum charges, Staff  
4 recommends higher monthly minimum charges than proposed by the Company. For the  
5  $\frac{3}{4}$ '-meter, Staff recommends a monthly minimum charge of \$17.00, which is \$2.00 over  
6 the Company's proposal of \$15.00. Because Staff is recommending higher monthly  
7 minimum charges, Staff's recommended commodity rate for each tier is lower than the  
8 Company's proposal. For example, Staff is recommending a commodity rate of \$1.70 per  
9 1,000-gallons for the first-tier, which is lower than the Company's proposed rate of \$3.00  
10 per 1,000-gallons. This difference in rate design is attributable to Staff's recommendation  
11 to generate a higher percentage of revenues from monthly minimum charges.

12  
13 For service charges, and service line and meter installation charges, Staff recommends  
14 some modifications to the Company's proposal. Staff recommends an increase to the  
15 Company's current service charges to reflect an appropriate cost for each service. For  
16 service line and meter installation, Staff recommends charges that are based on  
17 engineering analysis. Please see Mr. Liu's testimony, at Section J of Exhibit JWL; and the  
18 related Table J-1, for full analysis of service line and meter installation charges.

19  
20 **Q. Did Staff prepare schedules showing present, Company proposed, and Staff**  
21 **recommended monthly minimum charges and commodity rates?**

22 A. Yes. Staff's Schedule AII-19, page 1 of 2 shows the present minimum charges and  
23 commodity rates, the Company's proposed minimum charges and commodity rates, and  
24 Staff's recommended minimum charges and commodity rates.

25

1 **Q. Did Staff prepare schedules showing the present, Company proposed and Staff**  
2 **recommended service charges, and service line and meter installation charges?**

3 A. Yes. Schedule AII-19, page 2 of 2, depicts the present, Company' proposed, and Staff  
4 recommended service charges, and service line and meter installation charges.

5  
6 **TYPICAL BILL ANALYSIS**

7 **Q. What is the impact of the Company's proposed rate design on the typical bill of a**  
8 **residential customer?**

9 A. As shown on Company filed Schedule H-4, page 1, its proposed rate design increases the  
10 monthly typical bill for  $\frac{3}{4}$ -inch metered residential customer, with an average  
11 consumption of 17,782-gallons, from \$62.68 to \$73.68, which is an increase of \$11.18 or  
12 17.84 percent.

13  
14 **Q. Please state the typical bill impact of Staff's recommended rate design on a**  
15 **residential customer with an average consumption.**

16 A. As shown on Schedule AII-20, Staff's recommended rate design increases the monthly  
17 typical bill for a  $\frac{3}{4}$ -inch metered residential customer, with an average consumption of  
18 17,782-gallons, from \$62.68 to \$63.90, an increase of \$1.22 or 1.94 percent.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes.

**SUNRISE WATER COMPANY**

Docket No. W-02069A-08-0406

Test Year Ended December 31, 2007

**DIRECT TESTIMONY OF ALEXANDER IBHADE IGWE**

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 1,448,154	\$ 1,448,154	\$ 1,183,834	\$ 1,183,834
2	Adjusted Operating Income (Loss)	\$ (60,264)	\$ (60,264)	\$ 92,165	\$ 92,165
3	Current Rate of Return (L2 / L1)	-4.16%	-4.16%	7.79%	7.79%
4	Required Rate of Return	10.00%	10.00%	10.00%	10.00%
5	Required Operating Income (L1 * L4)	\$ 144,815	\$ 144,815	\$ 118,383	\$ 118,383
6	Operating Income Deficiency (L5 - L2)	\$ 205,079	\$ 205,079	\$ 26,218	\$ 26,218
7	Gross Revenue Conversion Factor	1.3942	1.39424	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 285,932	\$ 285,932	\$ 26,218	\$ 26,218
9	Adjusted Test Year Revenue	\$ 1,304,363	\$ 1,304,363	\$ 1,352,178	\$ 1,352,178
10	Proposed Annual Revenue (L8 + L9)	\$ 1,590,295	\$ 1,590,295	\$ 1,378,396	\$ 1,378,396
11	Required Increase in Revenue (%)	21.92%	21.92%	1.94%	1.94%

References:

Columns [A] and [B]: Company Schedules A-1, A-2, & D-1  
Columns [C] and [D]: STAFF Schedules All-2, All-3 and All-8

**RATE BASE - ORIGINAL COST**

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 10,408,383	\$ -	\$ 10,408,383
2	Less: Accumulated Depreciation	2,492,247	135,964	\$ 2,628,211
3	Net Plant in Service	<u>\$ 7,916,136</u>	<u>\$ (135,964)</u>	<u>\$ 7,780,172</u>
	<u>LESS:</u>			
4	Net Contribution in Aid of Construction (CIAC)	\$ 263,407	-	\$ 263,407
6	Advances in Aid of Construction (AIAC)	6,256,352	128,356	\$ 6,384,708
8	Customer Deposits	91,855	-	\$ 91,855
10	Total Deductions	<u>\$ 6,611,614</u> 4,152,031	<u>128,356</u>	<u>\$ 6,739,970</u> 3,668,413
	<u>ADD:</u>			
11	Allowance for Working Capital	\$ -	-	-
12	Deferred Income Taxes	143,632	-	143,632
13	Total Additions	<u>\$ 143,632</u>	<u>-</u>	<u>\$ 143,632</u>
14	<b>Original Cost Rate Base</b>	<u><u>\$ 1,448,154</u></u>	<u><u>\$ (264,320)</u></u>	<u><u>\$ 1,183,834</u></u>

References:

Column [A], Company Schedule B-1

Column [B]: Column [C] - Column [A]

Column [C]: Schedule All-4, Column [H]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] STAFF ADJUSTED
1		PLANT IN SERVICE								
2	301.00	Intangible Plant								
3	302.00	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	303.00	Franchises								
5		Land & Land Rights	1,077,568	-	-	-	-	-	-	1,077,568
5		Subtotal Intangible	\$ 1,077,568							\$ 1,077,568
6		Source of Supply								
7	304.00	Structures & Improvements	\$ 318,370	-	-	-	-	-	-	\$ 318,370
8	305.00	Collecting and Impounding Res.		-	-	-	-	-	-	-
9	306.00	Lake River and Other Intakes		-	-	-	-	-	-	-
10	307.00	Wells and Springs	1,999,842	-	-	-	-	-	-	1,999,842
11	308.00	Infiltration Galleries and Tunnels		-	-	-	-	-	-	-
12	309.00	Supply Mains		-	-	-	-	-	-	-
13	310.00	Power Generating Equipment		-	-	-	-	-	-	-
14	311.00	Electric Pumping Equipment	1,685,130	-	-	-	-	-	-	1,685,130
15	312.00	Collecting & Impounding Reservoirs		-	-	-	-	-	-	-
16	313.00	Lakes, Rivers, Other Intakes		-	-	-	-	-	-	-
17		Subtotal Source of Supply	\$ 4,003,342							\$ 4,003,342
18	320.00	Water Treatment								
19	321.00	Water Treatment Equipment	\$ 76,874	-	-	-	-	-	-	\$ 76,874
20	323.00	Structures & Improvements		-	-	-	-	-	-	-
21	325.00	Other Power Production		-	-	-	-	-	-	-
22	326.00	Electric Pumping Equipment		-	-	-	-	-	-	-
23	328.10	Diesel Pumping Equipment		-	-	-	-	-	-	-
24		Gas Engine Pumping Equipment		-	-	-	-	-	-	-
24		Subtotal Water Treatment	\$ 76,874							\$ 76,874
25	330.00	Transmission & Distribution								
26	331.00	Distribution Reservoirs & Standpipe	\$ 502,437	-	-	-	-	-	-	\$ 502,437
27	332.00	Transmission and Distribution Mains	3,899,889	-	-	-	-	-	-	3,899,889
28	334.00	Services	419,538	-	-	-	-	-	-	419,538
29	335.00	Meters	15,295	-	-	-	-	-	-	15,295
30	336.00	Hydrants	364,494	-	-	-	-	-	-	364,494
31	339.00	Backflow Prevention Devices		-	-	-	-	-	-	-
32		Other Plant and Miscellaneous Equipment		-	-	-	-	-	-	-
32		Subtotal Transmission & Distribution	\$ 5,201,653							\$ 5,201,653
33	340.10	General Plant								
34	340.20	Office Furniture and Equipment	27,777	-	-	-	-	-	-	\$ 27,777
35	340.30	Computer & Peripheral Equip.		-	-	-	-	-	-	-
36	341.10	Computer and Software		-	-	-	-	-	-	-
37	342.00	Transportation Equipment		-	-	-	-	-	-	-
38	343.00	Stores Equipment		-	-	-	-	-	-	-
39	344.00	Tools and Work Equipment	12,327	-	-	-	-	-	-	12,327
40	345.00	Laboratory Equipment		-	-	-	-	-	-	-
41	346.10	Power Operated Equipment		-	-	-	-	-	-	-
42	346.20	Communications Equipment - Non-Telephone		-	-	-	-	-	-	-
43	348.10	Communications Equipment - Telephone		-	-	-	-	-	-	-
44	347.00	Communications Equipment - Other		-	-	-	-	-	-	-
45	349.00	Miscellaneous Equipment	8,842	-	-	-	-	-	-	8,842
46		Other Tangible Plant		-	-	-	-	-	-	-
47		Plant Held for Future Use		-	-	-	-	-	-	-
47		Subtotal General Plant	\$ 48,946							\$ 48,946
51		Total Plant in Service	\$ 10,408,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,408,383
52		Less: Accumulated Depreciation	2,492,247	135,964	-	-	-	-	-	2,628,211
53		Net Plant in Service (L51 - L53)	\$ 7,916,136	\$ (135,964)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,780,172
54		LESS:								
54		Net Contributions in Aid of Construction (CIAC)	263,407	#	#	#	#	#	#	263,407
55		Imputed Regulatory Contributions		-	-	-	-	-	-	-
56		Advances in Aid of Construction (AIAC)	6,256,352	-	128,356	-	-	-	-	6,384,708
57		Imputed Regulatory Advances		-	-	-	-	-	-	-
58		Customer Meter Deposits	91,855	-	-	-	-	-	-	91,855
59		Investment Tax Credits		-	-	-	-	-	-	-
60		Deferred Income Tax Credits (Debits)		-	-	-	-	-	-	-
61		Total Deductions	\$ 6,611,614		128,356					\$ 6,739,970
62		ADD:								
62		Allowance for Working Capital		-	-	-	-	-	-	-
63		Accumulated Deferred Income Taxes	143,632							143,632
64		Total Additions	\$ 143,632							\$ 143,632
65		Original Cost Rate Base	\$ 1,448,154	\$ (135,964)	\$ (128,356)	\$ -	\$ -	\$ -	\$ -	\$ 1,183,834

ADJ #	Description
1	Accumulated Depreciation - Schedule All-4
2	Advances-in-Aid of Construction - Schedule All-5

SUNRISE WATER COMPANY  
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Test Year Ended December 31, 2007

Schedule All-4

**RATE BASE ADJUSTMENT NO. 1 - ACCUMULATED DEPRECIATION**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Accumulated Depreciation	<u>\$ 2,492,247</u>	<u>\$ 135,964</u>	<u>\$ 2,628,211</u>

REFERENCES:

Column [A]: Company Schedule B-2  
Column [B]: Testimony, All  
Column [C]: Column [A] + Column [B]

SUNRISE WATER COMPANY  
Docket No. W-02069A-08-0406  
Test Year Ended December 31, 2007

Schedule All-5

**RATE BASE ADJUSTMENT NO. 2 - ADVANCES-IN-AID OF CONSTRUCTION**

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJUSTMENT	[C] STAFF ADJUSTED
1	Accumulated Depreciation	<u>\$ 6,256,352</u>	<u>\$ 128,356</u>	<u>\$ 6,384,708</u>

REFERENCES:

Column [A]: Company Schedule B-2  
Column [B]: Testimony, All  
Column [C]: Column [A] + Column [B]



OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Metered Water Sales	\$ 1,296,025	\$ 47,815	\$ 1,343,840	\$ 26,218	\$ 1,370,058
2	Other Operating Revenue	8,338	-	8,338	-	8,338
3	Total Operating Revenues	\$ 1,304,363	\$ 47,815	\$ 1,352,178	\$ 26,218	\$ 1,378,396
4						
<u>OPERATING EXPENSES:</u>						
5						
6	Salaries & Wages	414,840	(64,670)	350,170		350,170
7	Purchased Water	-	-	-		-
8	Purchase Power	169,673	7,069	176,742		176,742
9	Chemicals	14,099	-	14,099		14,099
10	Repairs & Maintenance	26,549	-	26,549		26,549
11	Office Supplies Expenses	53,733	(1,500)	52,233		52,233
12	Outside Services	45,163	(27,000)	18,163		18,163
13	Water Testing	2,635	2,184	4,819		4,819
14	Rent Expense	37,664	(16,574)	21,090		21,090
15	Transportation Expense	74,769	(23,180)	51,589		51,589
16	Insurance - General Liability	11,141	-	11,141		11,141
17	Insurance - Health & Life	50,775	-	50,775		50,775
18	Regulatory Expense	25,000	-	25,000		25,000
19	Miscellaneous Expense	(21,980)	30,831	8,851		8,851
20	Depreciation & Amortization	395,853	10,210	406,063		406,063
21	Property Taxes	64,714	(21,985)	42,729	-	42,729
22	Income Taxes	-	-	-	-	-
23	Total Operating Expenses	\$ 1,364,627	\$ (104,614)	\$ 1,260,013	\$ -	\$ 1,260,013
24	Operating Income (Loss)	\$ (60,264)	\$ 152,429	\$ 92,165	\$ 26,218	\$ 118,383

References:

Column (A): Company Schedule C-1  
Column (B): Schedule All-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules All-1 and All-2  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8	(J) ADJ #9	(K) ADJ #10	(L) ADJ #11	(M) ADJ #12	(N) ADJ #13	(O) ADJ #14	(P) ADJ #15	(Q) ADJ #16	(R) ADJ #17	(S) ADJ #18	(S) ADJ #19	(S) ADJ #20	(T) ADJ #21	(U) ADJ #22	(V) ADJUSTED
1	Revenues	1,298,025	47,815	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,345,840
2	Materials Water Sales	8,338	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,338
3	Other Operating Revenue	1,304,353	47,815	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,352,178
4	Total Operating Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	OPERATING EXPENSES	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Salaries & Wages	414,840	-	(68,813)	4,243	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	350,170
7	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Electricity	169,673	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	176,742
9	Chemicals	28,348	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,348
10	Depreciation & Amortization	25,313	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,313
11	Other Operating Expenses	45,163	-	-	-	-	(1,500)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,663
12	Water Treatment	2,635	-	-	-	-	-	(27,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,635
13	Water Testing	37,694	-	-	-	-	-	-	2,184	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,878
14	Transportation Expenses	74,769	-	-	-	-	-	-	-	(12,487)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	62,282
15	Insurance - General Liability	11,141	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,141
16	Insurance - Health & Life	59,775	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,775
17	Depreciation & Amortization	25,313	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,313
18	Miscellaneous Expenses	(21,880)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,880
19	Depreciation & Amortization	395,855	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	395,855
20	Property Taxes	64,714	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64,714
21	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Total Operating Expenses	1,354,628	-	(68,813)	4,243	-	-	-	2,184	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	Operating Income (Loss)	(60,280)	47,815	-	-	-	-	-	(12,487)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

ADJ #	DESCRIPTION	REFERENCES	ADJ #	DESCRIPTION	REFERENCES
1	Materials Water Sales	Schedule AII-8	8 & 10 & 11	Rent Expense	Schedule AII-14
2 & 3	Salaries & Wages	Schedule AII-9	12, 13 & 14	Transportation Expenses	Schedule AII-15
4	Purchased Water	Schedule AII-10	15, 16, 17, 18 & 19	Miscellaneous Expenses	Schedule AII-17
5	Office Supplies Expenses	Schedule AII-11	20	Depreciation & Amortization	Schedule AII-18
6	Other Services	Schedule AII-12	21	Property Taxes	Schedule AII-18
7	Water Testing	Schedule AII-13			

**SUNRISE WATER COMPANY**  
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Schedule All-8

OPERATING INCOME ADJUSTMENT NO. 1 - TEST YEAR REVENUES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Metered Revenues	\$ 1,296,025	\$ 47,815	\$ 1,343,840
2	Other Revenues	8,338	-	\$ 8,338
3	Total Revenues	<u>\$ 1,304,363</u>	<u>\$ 47,815</u>	<u>\$ 1,352,178</u>

References:

Column (A), Company Schedule C-2 & Workpapers

Column (B): Testimony All

Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**  
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Test Year Ended December 31, 2007

Schedule All-9

OPERATING INCOME ADJUSTMENT NOS. 2 & 3 - SALARIES & WAGES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	ADJ. #	[C] STAFF RECOMMENDED
1	Salaries & Wages	\$ 414,840	\$ (68,913)	2	\$ 345,927
2	Transp. Exp. (Incentive Bonus)		4,243	3	4,243
3	Total	<u>\$ 414,840</u>	<u>\$ (64,670)</u>		<u>\$ 350,170</u>

References:

Column (A), Company Schedule C-2 & Workpapers  
Column (B): Testimony All & Schedule All-17 (Adj. #13/2)  
Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**

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Test Year Ended December 31, 2007

Schedule All-10

**OPERATING INCOME ADJUSTMENT NO. 4 - PURCHASED POWER**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Power	\$ 169,673	\$ 7,069	176,742
2	Total	\$ 169,673	\$ 7,069	\$ 176,742

References:

Column (A), Company Schedule C-2 &amp; Workpapers

Column (B): Testimony All

Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**

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Test Year Ended December 31, 2007

Schedule All-11

**OPERATING ADJUSTMENT NO. 5 - OFFICE SUPPLIES EXPENSE**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Office Expense (Rent Reclassification)	\$ 53,733	\$ (1,500)	\$ 52,233
2	Total	53,733	(1,500)	52,233

References:

Column (A), Company Schedule C-2 &amp; Workpapers

Column (B): Testimony All &amp; Schedule All-16 (Adj. #10)

Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**  
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Schedule All-12

OPERATING INCOME ADJUSTMENT NO. 6 - OUTSIDE SERVICES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Outside Services	\$ 45,163	\$ (27,000)	18,163
2	Total	\$ 45,163	\$ (27,000)	\$ 18,163

References:

Column (A), Company Schedule C-2 & Workpapers  
Column (B): Testimony All  
Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**

Docket No. W-02069A-08-0406

Test Year Ended December 31, 2007

Schedule All-13

**OPERATING INCOME ADJUSTMENT NO. 7 - WATER TESTING EXPENSE**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENT	[C] STAFF RECOMMENDED
1	Water Testing Expense	\$ 2,635	\$ 2,184	4,819
2	Total	\$ 2,635	\$ 2,184	\$ 4,819

References:

Column (A), Company Schedule C-2

Column (B): Testimony All &amp; Staff Engineering Exhibit JWL, Page 4

Column (C): Column (A) + Column (B)



SUNRISE WATER COMPANY  
Docket No. W-02069A-08-0406  
Test Year Ended December 31, 2007

Schedule All-14

OPERATING ADJUSTMENT NOS. 8, 9, 10 & 11 - RENT EXPENSE

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENT	ADJ. #	STAFF RECOMMENDED
1	Barn, Workshop & Storage	\$ 12,487	\$ (12,487)	8	\$ -
2	Ground Lease Expense	-	\$ -		-
3	Equipment Rental	69	\$ -		69
4	Office & Yard Rental	25,108	\$ (25,108)	9	-
5	Reclassification from Office Exp. (Arrowhead Mini Storage)		\$ 1,500	10	1,500
6	Reclassification of Office Rent from Misc. Exp.	-	\$ 19,521	11	19,521
7	Total	<u>37,664</u>	<u>(16,574)</u>		<u>21,090</u>

References:

Column (A), Company Schedule C-2 & Workpapers

Column (B): Testimony All, Schedule All-13 for Adj. # 10 & Schedule All-18 for Adj. #11

Column (C): Column (A) + Column (B)

**SUNRISE WATER COMPANY**

Docket No. W-02069A-08-0406

Test Year Ended December 31, 2007

Schedule All-15

**OPERATING INCOME ADJUSTMENT NOS. 12, 13 & 14 - TRANSPORTATION EXPENSE**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Transportation Expense	74,769	(18,292)	56,477
2	Total	74,769	(18,292)	56,477

Recalculation of Transportation Expense						
	Description	Company As Filed	Staff Adjustment	Adj. Subtotal	ADJ. #	Staff Adjusted
3	01 Chevy Silverado Trent	-				-
4	01 Chevy Silverado Frank	-				-
5	02 Chevy Silverado Mimi	4,887				4,887
6	2005 Ford F150 - Frank	8,438	(1,754)			6,684
7	2004 FORD F-250 Trent	8,438	(1,754)	(3,507)	12	6,684
8	Gas & Oil	23,845	\$ (8,485)	\$ (8,485)	13	\$ 15,360
9	Auto Expense	16,505				\$ 16,505
10	Licenses & Fees	12,656	\$ (6,300)	\$ (6,300)	14	\$ 6,356
11	Total	74,769		(18,292)		56,477

References:

Column (A), Company Schedule C-2 &amp; Workpapers

Column (B): Testimony All &amp; Schedule All-11 (Adj #13/2)

Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NOS. 15, 16 & 17 MISCELLANEOUS EXPENSE

LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Miscellaneous Expense	\$ (21,980)	\$ 30,831	\$ 8,852
2	Total	\$ (21,980)	\$ 30,831	\$ 8,852

Recalculation of Miscellaneous Expense

	Company Per GL	Company Adj.	Company As Filed	Staff Adj.	Adj. #	Staff Adjusted
3	Permits & Recording Fees	\$ 3,992		\$ (3,992)	15	\$ -
4	Bank Charges	1,580				1,580
5	Dues & Subscriptions	3,344				3,344
6	Advertising	877				877
7	Delivery Charges	-				-
8	Contributions	550				550
9	Seminars / Training	-				-
10	Entertainment & Promotion	4,785		(2,285)	16	2,500
11	Security	-				-
12	Prelim invest into water suppl	(6,413)		6,413	17	0
13	Capitalized OverHead	(156,874)	106,658	(50,216)	18	0
14	Overhead Expense (Rent Reclass.)	19,521		(19,521)	19	-
15	Repayment of WLX	142,925	(142,925)	-		-
16	P/S	-		-		-
17	Zoning	-		-		-
18	Total	\$ 14,287	\$ (36,267)	\$ (21,980)		\$ 8,852

References:

Column (A), Company Schedule C-2 & Workpapers  
Column (B): Testimony All & Schedule All-16 for Adj. #17  
Column (C): Column (A) + Column (B)

OPERATING ADJUSTMENT NO. 18- DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] AMOUNT	[B] DEPREC. RATE	[C] DEPREC. EXPENSE
1	301	Organization Costs	-	0.00%	-
2	302	Franchise Costs	-	0.00%	-
3	303	Land & Land Rights	1,077,568	0.00%	-
4	304	Structures & Improvements	318,370	3.33%	10,602
5	307	Wells & Springs	1,999,842	3.33%	66,595
6	311	Electric Pumping Equipment	1,685,130	12.50%	210,641
7	320	Water Treatment Equipment	-	-	-
8	320.1	Water Treatment Plants	-	-	-
9	320.2	Solutions & Feeders	76,874	20.00%	15,375
10	330	Distribution Reservoirs & Standpipes	-	-	-
11	330.1	Storage Tank	452,193	2.22%	10,039
12	330.2	Pressure Tanks	50,244	5.00%	2,512
13	331	Transmission & Distribution Mains	3,899,889	2.00%	77,998
14	333	Services	419,538	3.33%	13,971
15	334	Meters & Meter Installations	15,295	8.33%	1,274
16	335	Hydrants	364,494	2.00%	7,290
17	336	Backflow Prevention Devices	-	-	-
18	339	Other Plant & Misc. Equip.	-	-	-
19	340	Office Furniture & Fixtures	-	-	-
20	340.1	Computer & Software	27,777	20.00%	5,555
21	341	Transportation Equipment	-	-	-
22	343	Tools & Work Equipment	12,327	5.00%	616
23	344	Laboratory Equipment	-	-	-
24	345	Power Operated Equipment	-	-	-
25	345	Communications Equipment	-	-	-
26	347	Miscellaneous Equipment	8,842	10.00%	884
27	348	Other Intangibles	-	-	-
28					
29		Total	10,408,383		423,352
		Contribution in Aid of Construction	\$ 425,049		
		Composite Depreciation Rate	4.07%		
		Amortization of CIAC	17,288		(17,288)
		Net Depreciation Expense			406,063
		Company Reported Depreciation Expense			395,853
		Staff Adjustment			10,210

References:

Column (A): Company Schedule C-2 & Workpapers  
Column (B): Testimony All  
Column (C): Column (A) + Column (B)

**OPERATING ADJUSTMENT NO. 19 - PROPERTY TAX EXPENSE**

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2007	\$ 1,352,178	\$ 1,352,178
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 2,704,356	\$ 2,704,356
4	Staff Recommended Revenue	1,378,396	1,378,396
5	Subtotal (Line 4 + Line 5)	\$ 4,082,752	\$ 4,082,752
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 1,360,917	\$ 1,360,917
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 2,721,835	\$ 2,721,835
10	Plus: 10% of CWIP	20,865	20,865
11	Less: Net Book Value of Licensed Vehicles	181,994	181,994
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 2,560,706	\$ 2,560,706
13	Assessment Ratio	22.50%	22.50%
14	Assessment Value (Line 12 * Line 13)	\$ 576,159	\$ 576,159
15	Composite Property Tax Rate - Obtained from ADOR	7.41614%	7.41614%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 42,729	
17	Company Proposed Property Tax	64,714	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ (21,985)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 42,729
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		42,729
21	Increase in Property Tax Due to Increase in Revenue Requirement		\$ -

**REFERENCES:**

Line 15: Composite Tax Rate obtained from Arizona Department of Revenue  
Line 17: Company Schedule C-1 Page 2  
Line 21: Line 19 - Line 20  
Line 23: Schedule All-1

# RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
3/4" Residential	\$ 12.00	\$ 15.00	\$ 17.00
1" Residential	\$ 16.50	\$ 20.50	\$ 28.33
1 1/2-inch Residential	\$ 21.50	\$ 26.50	\$ 56.65
2-inch Residential	\$ 26.50	\$ 33.00	\$ 90.64
3/4" Commercial	\$ 12.00	\$ 15.00	\$ 17.00
1" Commercial	\$ 16.50	\$ 20.50	\$ 28.33
Hydrant Meter 3"	\$ 25.00	\$ 40.00	\$ 181.28
Coin-Operated Standpipe	N/A	N/A	N/A
<b>Commodity Rates</b>			
3/4" Residential	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$ 2.85	N/A	N/A
From 1 to 4,000 Gallons	N/A	\$ 3.00	\$ 1.70
From 4,001 - 18,000 Gallons	N/A	\$ 3.40	N/A
Over 18,000 Gallons	N/A	\$ 3.70	N/A
From 4,001 to 13,000 Gallons	N/A	N/A	\$ 2.47
Over 13,000 Gallons	N/A	N/A	\$ 3.09
1" Residential	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$ 2.85	N/A	N/A
From 1 to 27,000 Gallons	N/A	\$ 3.40	2.47
Over 27,000 Gallons	N/A	\$ 3.70	3.09
1 1/2-inch Residential	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$ 2.85		\$ 2.47
From 1 - 35,000 Gallons	N/A	\$3.40	\$ 3.09
Over 35,000 Gallons	N/A	\$3.70	
2-inch Residential	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$ 2.85	N/A	N/A
From 1 to 65,000 Gallons	N/A	\$3.40	\$ 2.47
Over 65,000 Gallons	N/A	\$3.70	\$ 3.09
3/4" Commercial	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
All Gallons	\$ 2.85	N/A	N/A
From 1 to 4,000 Gallons	N/A	\$ 3.00	\$ 1.70
From 4,001 - 14,000 Gallons	N/A	\$ 3.40	N/A
Over 14,000 Gallons	N/A	\$ 3.70	N/A
From 4,001 - 13,000 Gallons	N/A	N/A	\$ 2.47
Over 13,000 Gallons	N/A	N/A	\$ 3.09
1" Commercial	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$2.85		\$ 2.47
From 1 to 27,000 Gallons	N/A	\$ 3.40	\$ 3.09
Over 27,000 Gallons	N/A	\$ 3.70	
Hydrant Meter 3"	N/A	N/A	N/A
Gallons Included in Minimum	N/A	N/A	N/A
Excess of Minimum - per 1,000 Gallons			
All Gallons	\$2.85	\$3.40	\$ 2.47
Coin-operated Standpipe	N/A	\$3.40	2.47
Gallons Included in Minimum	N/A		

# RATE DESIGN

Service Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
Establishment	\$ 10.00	\$ 35.00	\$ 25.00
Establishment (After Hours)	\$ 20.00	\$ 50.00	\$ 35.00
Reconnection (Delinquent)	\$ 10.00	\$ 35.00	\$ 15.00
Reconnection (Delinquent and After Hours)	\$ 20.00	\$ 50.00	\$ 25.00
Meter Test	\$ 5.00	Cost	\$ 25.00
Deposit Requirement:			
- Residential Customer	2 Times the Average Bill	2 Times the Average Bill	Per Rule*
- Non-Residential Customer	2½ Times the Average Bill	2½ Times the Average Bill	Per Rule*
Deposit Interest	N/T	6.00%	6.00%
Re-establish within 12 months	\$ 80.00	Number of months off	Number of months off
NSF Check	N/T	\$ 35.00	\$ 35.00
Meter Re-Read	N/T	\$ 15.00	\$ 10.00
Deferred Payment, Per Month	NT	1.50%	1.50%
Late Charge per month	NT	1.50%	1.50%
Charge for moving Customer Meter	NT	Cost	N/T
Road cutting or boring	NT	Cost	NT
<b>Service Line &amp; Meter Installation Charges</b>			
			Service Line Charge    Meter Charge    Total Charge
5/8 x 3/4" Meter	N/T	N/T	\$ 430    \$ 130    \$ 560
3/4" Meter	\$275.00	\$ 700	\$ 445    \$ 255    \$ 700
1" Meter	\$325.00	\$ 810	\$ 495    \$ 315    \$ 810
1 1/2" Meter	\$550.00	\$ 1,075	\$ 550    \$ 525    \$ 1,075
2" Meter (Turbine)	\$800.00	\$ 1,875	\$ 600    \$ 915    \$ 1,515
2" Meter (Compound)	N/T	\$ 2,770	\$ 830    \$ 1,045    \$ 1,875
3" Meter & Above	N/T	Cost	Cost    Cost    Cost
<b>Private Fire Service</b>			
4" Fire Line Service		\$ 25.00	\$ 25.00
6" Fire Line Service		\$ 35.00	\$ 35.00
8" Fire Line Service		\$ 45.00	\$ 45.00
<p>NT = No Tariff  * Per Commission Rules (R14-2-403.B)</p> <p>In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).</p> <p>All Tariff billed at cost shall include labor, material and parts and all applicable taxes</p>			

**Typical Bill Analysis**  
Residential 3/4" Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	17,782	\$ 62.68	\$ 73.86	\$ 11.18	17.84%
Median Usage	13,476	\$ 50.41	\$ 59.22	\$ 8.81	17.48%
<b>Staff Recommended</b>					
Average Usage	17,782	\$ 62.68	\$ 63.90	\$ 1.22	1.94%
Median Usage	13,476	\$ 50.41	\$ 50.58	\$ 0.17	0.34%

**Present & Proposed Rates (Without Taxes)**  
General Service 3/4-Inch Meter

Gallons	Present	Company Proposed	%	Staff Recommended	%
	3/4"	3/4"		3/4"	
	Minimum Charge \$ 12.00	Minimum Charge \$ 15.00		Minimum Charge \$ 17.00	
	1st Tier Rate \$ 2.85	1st Tier Rate \$ 3.00		1st Tier Rate 1.7000	
	1st Tier Breakover Infinite	1st Tier Breakover 4,000		1st Tier Breakover 4	
	2nd Tier Rate \$ 2.85	2nd Tier Rate \$ 3.40		2nd Tier Rate 2.4700	
	2nd Tier Breakover Infinite	2nd Tier Breakover 18,000		2nd Tier Breakover 13,000	
	3rd Tier Rate \$ 2.85	3rd Tier Rate \$ 3.70		3rd Tier Rate 3.0930	

Consumption	Bills	Bills	Increase	Bills	Increase
-	\$ 12.00	\$ 15.00	25.00%	\$ 17.00	41.67%
1,000	14.85	18.00	21.21%	19.47	31.09%
2,000	17.70	21.00	18.64%	21.94	23.94%
3,000	20.55	24.00	16.79%	24.41	18.77%
4,000	23.40	27.00	15.38%	26.88	14.86%
5,000	26.25	30.40	15.81%	29.35	11.80%
6,000	29.10	33.80	16.15%	31.82	9.34%
7,000	31.95	37.20	16.43%	34.29	7.31%
8,000	34.80	40.60	16.67%	36.76	5.62%
9,000	37.65	44.00	16.87%	39.23	4.19%
10,000	40.50	47.40	17.04%	41.70	2.96%
11,000	43.35	50.80	17.19%	44.17	1.88%
12,000	46.20	54.20	17.32%	46.64	0.95%
13,000	49.05	57.60	17.43%	49.11	0.12%
13,476	50.41	59.22	17.48%	50.58	0.34%
14,000	51.90	61.00	17.53%	52.20	0.58%
15,000	54.75	64.40	17.63%	55.29	0.99%
16,000	57.60	67.80	17.71%	58.39	1.36%
17,000	60.45	71.20	17.78%	61.48	1.70%
17,782	62.68	73.86	17.84%	63.90	1.94%
18,000	63.30	74.60	17.85%	64.57	2.01%
19,000	66.15	78.30	18.37%	67.66	2.29%
20,000	69.00	82.00	18.84%	70.76	2.55%
25,000	83.25	100.50	20.72%	86.22	3.57%
30,000	97.50	119.00	22.05%	101.69	4.30%
35,000	111.75	137.50	23.04%	117.15	4.83%
40,000	126.00	156.00	23.81%	132.62	5.25%
45,000	140.25	174.50	24.42%	148.08	5.58%
50,000	154.50	193.00	24.92%	163.55	5.86%
75,000	225.75	285.50	26.47%	240.87	6.70%
100,000	297.00	378.00	27.27%	318.20	7.14%



**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
SUNRISE WATER CO., AN ARIZONA )  
CORPORATION, FOR A DETERMINATION )  
OF THE CURRENT FAIR VALUE OF ITS )  
UTILITY PLANT AND PROPERTY AND FOR )  
INCREASES IN ITS RATES AND CHARGES )  
BASED THEREON FOR UTILITY SERVICE )

---

DOCKET NO. W-02069A-08-0406

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 27, 2009

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**EXECUTIVE SUMMARY  
SUNRISE WATER COMPANY  
DOCKET NO. W-02069A-08-0406**

**CONCLUSIONS**

- A. The Sunrise Water Company ("Sunrise") is located in the Phoenix Active Management Area ("AMA") and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report in October 2008. ADWR reported that Sunrise is currently in compliance with departmental requirements governing water providers and/or community water systems.
- B. Maricopa County Environmental Services Department ("MCESD") reported that Sunrise's drinking water system (PWS Number 07- 070) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards as required by the Arizona Administrative Code, Title 18, Chapter 4.
- C. A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.
- D. Sunrise has a curtailment plan filed with the Arizona Corporation Commission.
- E. The existing water systems have adequate well production and storage capacity to serve the existing connections.

**RECOMMENDATIONS**

- 1. Staff recommends an average annual cost of \$4,819 be adopted for the water testing expense in this proceeding.
- 2. Staff recommends that Sunrise use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners categories.
- 3. Staff recommends the acceptance of Staff's proposed meter and service line installation charges along with the adoption of an installation charge of "At Cost" for meter sizes of 3-inch and larger, as shown in Table J-1.

**INTRODUCTION**

**Q. Please state your name, place of employment and job title.**

A. My name is Jian W. Liu. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Water/Wastewater Engineer.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since October 2005.

**Q. Please list your duties and responsibilities.**

A. As a Water/Wastewater Engineer, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; providing written and oral testimony on rate applications and other cases before the Commission.

**Q. How many companies have you analyzed for the Utilities Division?**

A. I have analyzed approximately 45 companies for the Utilities Division covering various responsibilities.

**Q. Have you previously testified before this Commission?**

A. Yes, I have testified before this Commission.

1     **Q.     What is your educational background?**

2     A.     I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University  
3           ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master  
4           of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics  
5           ("IRSM"), Academy of Sciences, China.

6  
7     **Q.     Briefly describe your pertinent work experience.**

8     A.     From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS as a Civil and  
9           Environmental Engineer. In 2000, I joined the Arizona Department of Environmental  
10          Quality ("ADEQ"). My responsibilities with ADEQ included review and approval of  
11          water distribution systems, sewer distribution systems, and on-site wastewater treatment  
12          facilities. I remained with ADEQ until transferring to the Commission in October 2005.

13  
14    **Q.     Please state your professional membership, registrations, and licenses.**

15    A.     I am a licensed professional civil engineer in the State of Arizona.

16  
17    **PURPOSE OF TESTIMONY**

18    **Q.     Were you assigned to provide Staff's engineering analysis and recommendation for**  
19          **the Sunrise Water Company ("Sunrise" or "Company") in this proceeding?**

20    A.     Yes. I reviewed Sunrise's application and responses to data requests. Also I inspected the  
21          water system on December 19, 2008. This testimony and its attachment present Staff's  
22          engineering evaluation.

**ENGINEERING REPORT**

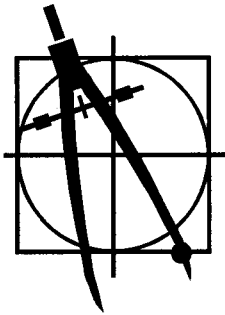
**Q. Please describe the attached Engineering Report, Exhibit JWL.**

A. Exhibit JWL presents the details and analyses of Staff's findings, and is attached to this direct testimony. Exhibit JWL contains the following major topics: (1) a description of the water system and the processes, (2) water use, (3) growth, (4) compliance with the rules of the ADEQ, Arizona Department of Water Resources ("ADWR"), and the Commission, (5) depreciation rates, (6) curtailment plan tariff, and (7) Service Line and Meter Installation Charges.

The conclusions and recommendations from the Engineering Report are contained in the "EXECUTIVE SUMMARY", above.

**Q. Does this conclude your direct testimony?**

A. Yes, it does.



**Engineering Report  
For Sunrise Water Company  
Docket No. W-02069A-08-0406 (Rates)**

**February 27, 2009**

**A. LOCATION OF Sunrise Water Company (“SUNRISE” OR “COMPANY”)**

Sunrise is located in the northern portion of the City of Peoria, Maricopa County, Arizona. Sunrise’s principal business office is located at 9098 W. Pinnacle Peak Road, Peoria, Arizona 85383. Figure A-1 shows the location of Sunrise within Maricopa County, and Figure A-2 shows the certificated area. Sunrise’s Certificate of Convenience and Necessity includes an area totaling approximately 2,500 acres or 3.9 square miles. As of December 31, 2007, the Company reported serving 1,324 water customers including two commercial customers.

**B. DESCRIPTION OF WATER SYSTEM**

The water system was field inspected on December 19, 2008, by Jian W Liu, Staff Utilities Engineer, in the accompaniment of Marvin Collins, representing Sunrise.

The Sunrise water system (PWS07-070) consists of seven wells, of which five are in service. Well Number 2 is currently out of service (out of service since January 2006) because the arsenic level in the water is 37 parts per billion (“ppb”). This level exceeds the U.S. Environmental Protection Agency’s arsenic maximum contaminant level of 10 ppb. Well Number 1 has been used as an observation well since 1985. Sunrise operates seven water storage tanks with a total storage capacity of 1,231,000 gallons. There are four booster stations and a distribution system. A system schematic is shown in Figure B-1. Detailed plant facility descriptions follow:

Table 1 Well Data

Well Number	ADWR ID No.	Pump HP	Pump GPM	Casing Size(in) & Depth(ft)	Meter Size(in)	Year Drilled
1	55-626342	NA	NA	8 and 525	NA	1968
2	55-626343	50	200	10 and 1190	3	1971
3	55-544015	50	200	12 and 1270	6	1994
4	55-566797	60	245	12 and 1170	6	1998
5	55-571201	125	475	12 and 1232	6	1999
6	55-206656	40	125	12 and 850	4	2005
7	55-213220	125	400	12 and 1000	6	2007

Note: GPM = gallons per minute.

Table 2 Storage Tanks

Capacity (Gallons)	Quantity (Each)	Location
20,000	1	8788 W Camino De Oro
100,000	2	23000 N 89 <sup>th</sup> Ave
100,000	1	7880 W William Road
500,000	1	9714 W Pinnacle Peak Road
325,000	1	24925 N 83 <sup>rd</sup> Ave
86,000	1	9202 W Hatfield
Totals: 1,231,000		

Table 3 Water Mains

Diameter (inch)	Material	Length (ft)
2	PVC	320
4	PVC	6,910
6	PVC	108,996
8	PVC	60,460
10	PVC	340
12	PVC	1,760
6	DIP	290
8	DIP	102
12	DIP	6,002



Table 4 Customer Meters

Size	Quantity
5/8 x 3/4-inch	
3/4-inch	746
1- inch	549
1-1/2-inch	45
2-inch	10
Turbo 3	
Turbo 4	
Turbo 6	

Table 5 Fire Hydrants

Size	Quantity
Standard	174
Other	3

The existing water system has adequate well production and storage capacity to serve the existing connections and reasonable growth.

### C. WATER USE

#### Water Sold

Based on the information provided by Sunrise, water use for the test year 2007 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 1,105 gallons per day ("GPD") per connection and a low monthly average water use of 437 GPD per connection for an average annual use of 819 GPD per connection.

#### Non-Account Water

Non-account water should be 10% or less. Sunrise reported that water pumped for all 5 wells in 2007 was 414.41 million gallons ("MG"), and that water sold was 393.70 MG. The Company's water loss during the test year was approximately 5.0%.

**D. GROWTH**

At the end of 2000, the Company had 1,020 customers. During the test year, Sunrise had 1,324 water customers including two commercial customers. It is projected that the Company could have approximately 1,370 customers by December 2012.

**E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**Compliance

ADEQ or its formally delegated agent within Maricopa County, the Maricopa County Environmental Services Department ("MCESD"), reported that the Sunrise drinking water system (PWS Number 07- 070) is in compliance with regulatory agency requirements and is currently delivering water that meets State and Federal drinking water quality standards as required by the Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size, for participation in MAP. Participation in the MAP program is mandatory for water systems that serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense of \$2,635 during the test year. Table A shows Staff's estimated annual monitoring expense of \$4,819 with participation in the MAP. Staff recommends its annual water testing expense of \$4,819 be used for purposes of this application.

**Table A Water Testing Expense**

Monitoring PWS#07- 070 for 5 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	\$ 50	72	3600	\$1,200
Inorganics (& secondary)	MAP	MAP	MAP	MAP
Radiochemical – (1/ 4 yrs)	MAP			MAP
IOC's, SOC's, VOC's				MAP
Nitrites	MAP			MAP
Asbestos – per 9 years	MAP			MAP
MAP fees (annual)				\$3,619
Total				<b>\$4,819</b>

**F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE**

Sunrise is located in the Phoenix Active Management Area (“AMA”) and is subject to its AMA reporting and conservation requirements. Staff received an ADWR compliance status report in October 2008. ADWR reported that Sunrise is currently in compliance with departmental requirements governing water providers and/or community water systems.

**G. ARIZONA CORPORATION COMMISSION (“ACC” or “COMMISSION”) COMPLIANCE**

A check with the Utilities Division Compliance Section showed no delinquent compliance items for the Company.

**H. DEPRECIATION RATES**

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners (“NARUC”). (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table H-1. Staff recommends that Sunrise use these depreciation rates by individual NARUC category.

**I. CURTAILMENT PLAN TARIFF**

Sunrise has a curtailment plan filed with the ACC.

**J. SERVICE LINE AND METER INSTALLATION CHARGES**

The Company has requested a change to its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are within 2% of the Staff’s recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed. Staff recommends the acceptance of Staff’s proposed installation charges along with the adoption of an installation charge of “At Cost” for meter sizes of 3-inch and larger as shown in Table J-1.

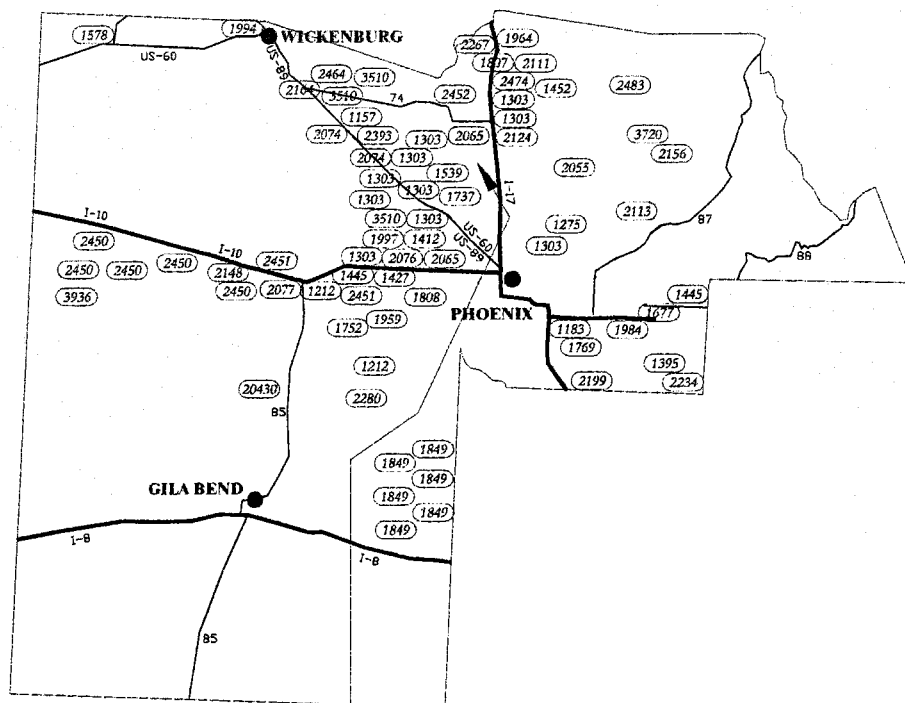
**K. PRO FORMA PLANT ADJUSTMENT**

The Company submitted two post-test year plant water main project additions for inclusion in rate base. These two post-test year project additions are as follows:

- 1) 91<sup>st</sup> Avenue and Pinnacle Peak Road water main;
- 2) 83<sup>rd</sup> Avenue and Avandia Del Sol water main.

Both water mains were installed to facilitate compliance with the new federal arsenic standard. Specifically, they were required because Well Number 2 was taken out of service due to the arsenic level in the water being 37 parts per billion ("ppb"). This level exceeds the U.S. Environmental Protection Agency's arsenic maximum contaminant level ("mcl") of 10 ppb. These water mains allow the transfer of water from other wells (that meet the arsenic mcl) to replace the water from Well Number 2.

Staff has inspected and verified that these two post-test year plant additions were constructed and placed into service prior to Staff's inspection on December 19, 2008.

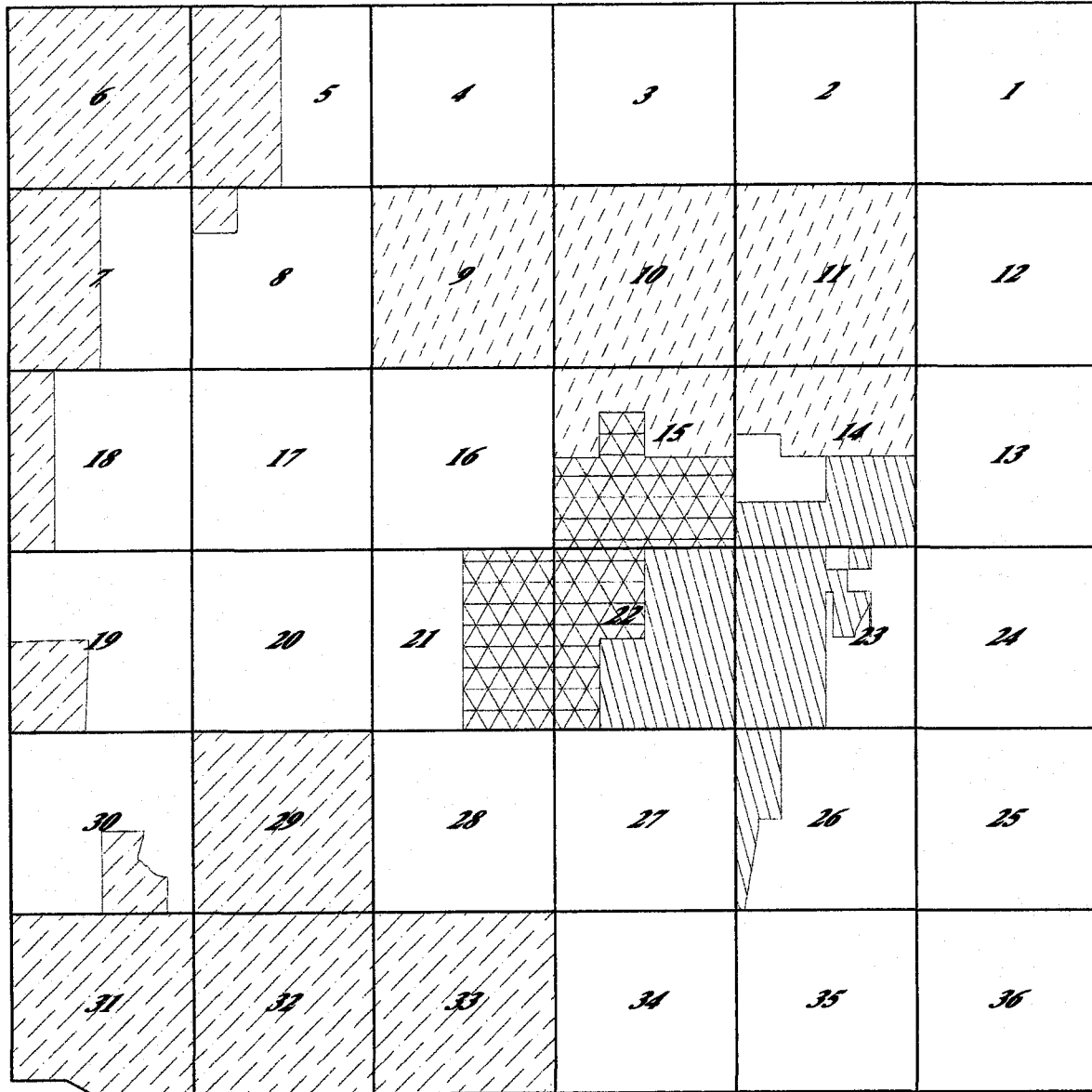


- |       |                                    |      |  |
|-------|------------------------------------|------|--|
| 1997  | ADAMAN MUTUAL WATER COMPANY        | 2164 | MORRISTOWN WATER COMPANY                   |
| 1578  | AGUILA WATER SERVICES, INC.        | 1737 | NEW RIVER UTILITY COMPANY                  |
| 2077  | ALLENVILLE WATER COMPANY, INC.     | 2199 | PIMA UTILITY COMPANY                       |
| 1303  | ARIZONA-AMERICAN WATER COMPANY     | 2464 | PUESTA DEL SOL WATER COMPANY               |
| 1445  | ARIZONA WATER COMPANY              | 1395 | QUEEN CREEK WATER COMPANY                  |
| 2074  | BEARDSLEY WATER COMPANY, INC.      | 1808 | RIGBY WATER COMPANY                        |
| 1275  | BERNEIL WATER COMPANY              | 2156 | RIO VERDE UTILITIES, INC.                  |
| 1964  | BLACK CANYON RETREAT WATER COMPANY | 1539 | ROSE VALLEY WATER COMPANY                  |
| 1994  | CABALLEROS WATER COMPANY, INC.     | 2111 | SABROSA WATER COMPANY                      |
| 1452  | CAVE CREEK WATER COMPANY           | 1183 | SENDE VISTA WATER COMPANY, INC.            |
| 2113  | CHAPARRAL CITY WATER COMPANY       | 2474 | SHANGRI-LA ASSOCIATES, INC.                |
| 2393  | CHAPARRAL WATER COMPANY            | 2280 | SOUTH RAINBOW VALLEY WATER COOPERATIVE     |
| 3510  | CIRCLE CITY WATER COMPANY L.L.C.   |      | SUNRISE WATER COMPANY, INC.                |
| 1752  | CLEARWATER UTILITIES COMPANY, INC. | 2076 | TIERRA BUENA WATER COMPANY                 |
| 1984  | DAIRYLAND WATER CORPORATION        | 2483 | TONTO HILLS UTILITY COMPANY                |
| 2124  | DESERT HILLS WATER COMPANY, INC.   | 1677 | TURNER RANCHES WATER & SANITATION COMPANY  |
| 3936  | EAGLETAIL WATER COMPANY LC         | 1212 | VALENCIA WATER COMPANY                     |
| 1959  | GRANDVIEW WATER COMPANY, INC.      | 1412 | VALLEY UTILITIES WATER COMPANY, INC.       |
| 20430 | GREEN ACRES WATER, LLC             | 2148 | VALLEY VIEW WATER COMPANY, INC.            |
| 2234  | H2O, INC.                          | 2451 | WATER UTILITY OF GREATER BUCKEYE, INC.     |
| 2055  | JAMES P. PAUL WATER COMPANY        | 2450 | WATER UTILITY OF GREATER TONOPAH, INC.     |
| 1769  | KYRENE WATER COMPANY               | 3720 | WATER UTILITY OF NORTHERN SCOTTSDALE, INC. |
| 2452  | LAKE PLEASANT WATER COMPANY        | 1157 | WEST END WATER COMPANY                     |
| 1427  | LITCHFIELD PARK SERVICE COMPANY    | 2065 | WILHOIT WATER COMPANY, INC.                |
| 2267  | MCADAMS WATER COMPANY              | 1807 | WRANGLERS ROOST WATER COMPANY              |
| 1849  | MOBILE WATER COMPANY               |      |  |

### Figure A-1: Maricopa County Map

# COUNTY: *Maricopa*

## RANGE 1 East



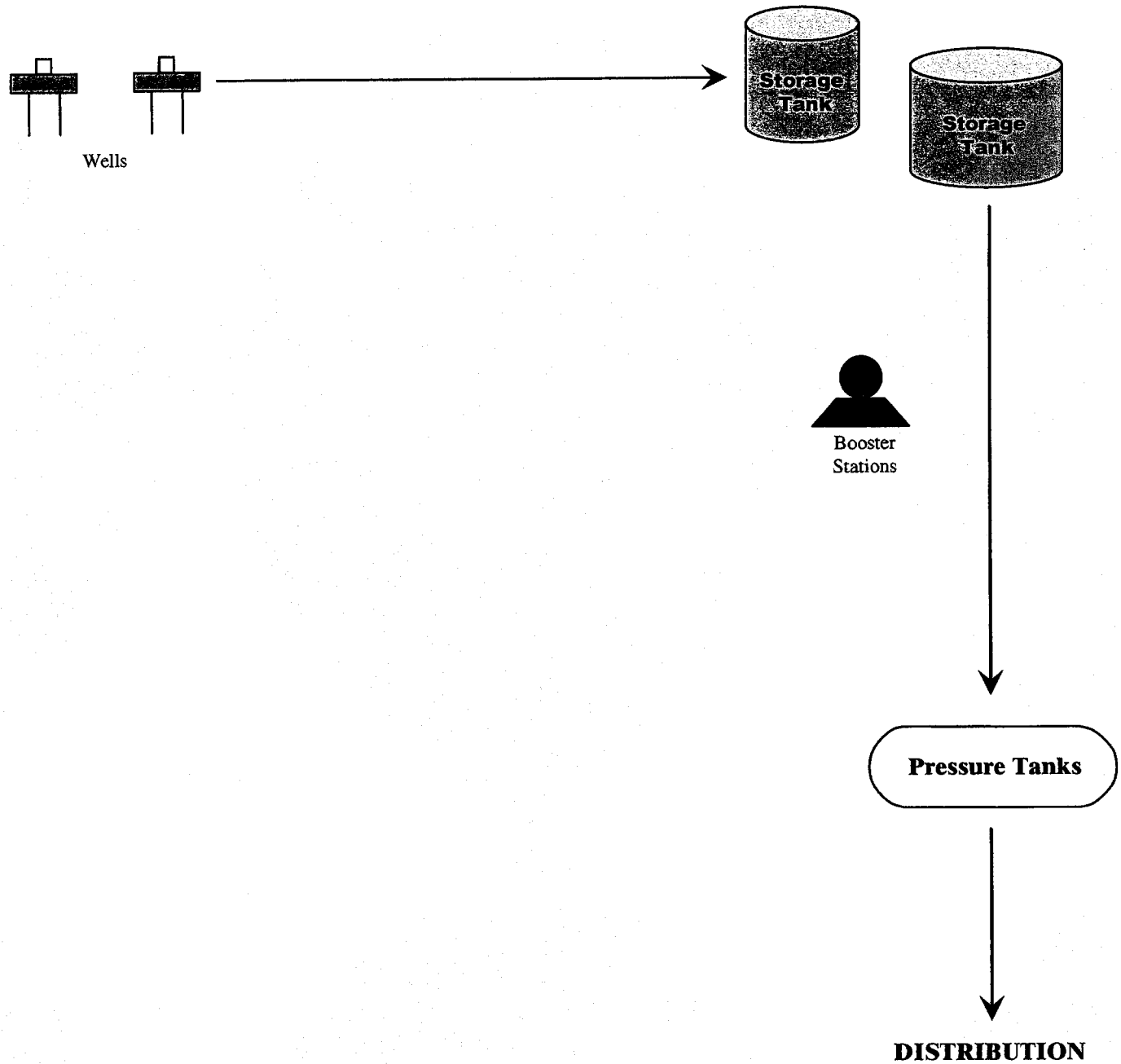
 **WS-1303 (14)**  
Arizona-American Water Company

 **W-1737 (1)**  
New River Utility Company

 **W-1539 (1)**  
Rose Valley Water Company

 **W-2069 (1)**  
Sunrise Water Company, Inc.

**Figure A-2: Certificated Area**



**Figure B-1. Process Schematic**

Figure C-1. Water Use

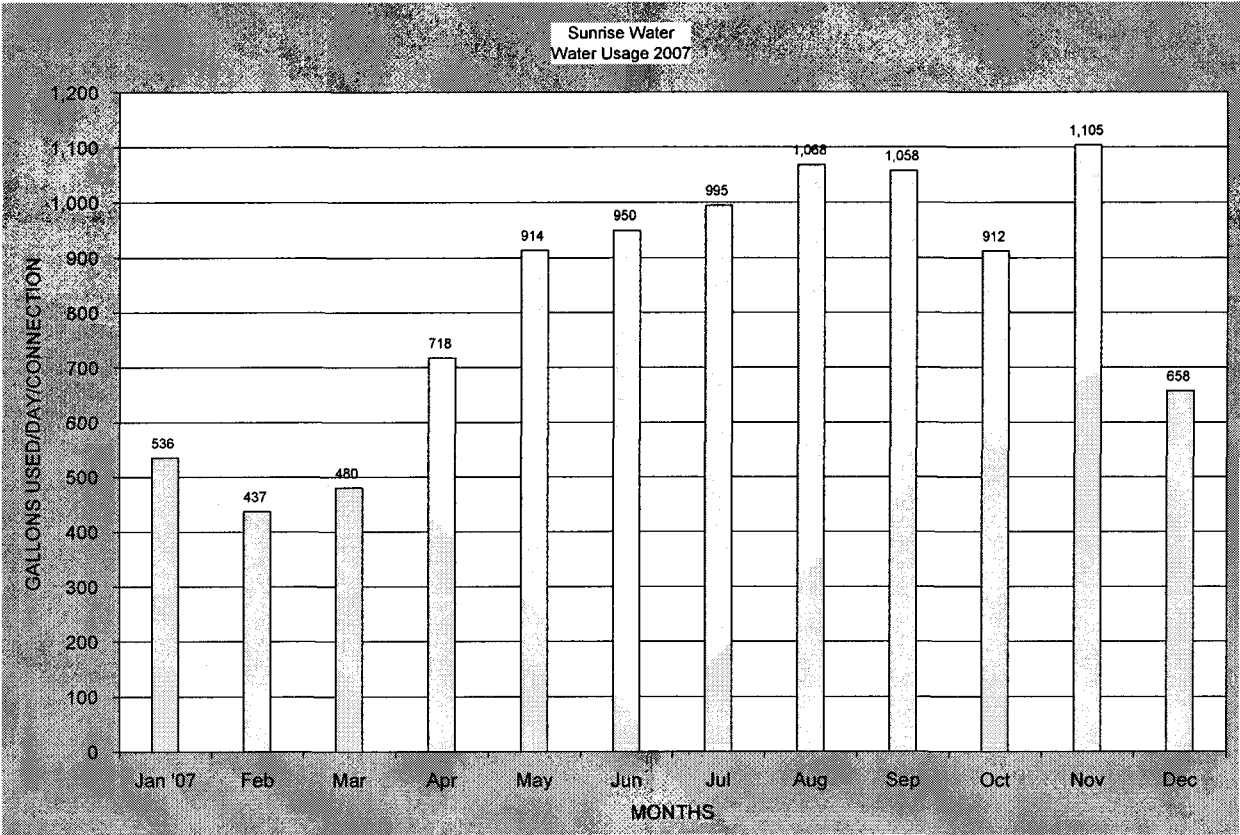




Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00

Table J-1. Service Line and Meter Installation Charges

Meter Sizes	Current Charges	Company Proposed Charges	Staff recommended Service Line Charges	Staff recommended * Meter Charges	Staff recommended Total Charges
5/8" x 3/4"	No Tariff	No Tariff	430	130	560
3/4"	275	700	445	255	700
1"	325	810	495	315	810
1-1/2"	550	1,075	550	525	1,075
2" - Turbine	800	1,875	830	1,045	1,875
2" - Compound	No Tariff	2,770	830	1,890	2,720
3" - Turbine	No Tariff	At Cost	At Cost	At Cost	At Cost
3" - Compound	No Tariff	At Cost	At Cost	At Cost	At Cost
4" - Turbine	No Tariff	At Cost	At Cost	At Cost	At Cost
4" - Compound	No Tariff	At Cost	At Cost	At Cost	At Cost
6" - Turbine	No Tariff	At Cost	At Cost	At Cost	At Cost
6" - Compound	No Tariff	At Cost	At Cost	At Cost	At Cost

\*Note: Meter charge includes meter box or vault.